Our Insight, Your Advantage®

March 3, 2025

US D&O Market Liability Premium Declines are Likely Inconsistent with the Risk Environment

Prospective D&O underwriting results could indicate that market premiums have fallen too far, too quickly

Principal Takeaways

- Monoline property/casualty industry directors and officers (D&O) liability premium have declined for over two years versus the same quarter the year prior. In seven of the quarters, the decline was in the double digits.
- Significant year-over-year renewal price decreases are likely to moderate in 2025, which AM Best considers important for D&O insurers, given potential market headwinds.
- Softer pricing could have an adverse effect on the near-term financial performance of D&O insurers because the premium base to support future claims activity has diminished noticeably even as risks are emerging or expanding.
- The impact of potential policy changes with respect to DEI, ESG, and regulations at this time is uncertain but may be significant.

Corporate directors and officers continue to face multiple risks including those arising from economic uncertainty; artificial intelligence; the evolving legal landscape; digital transformation via processes or operations; changing climate patterns; and potentially adverse shifts in public opinion. These exposures to potential litigation contributed to the skyrocketing renewal premium increases D&O liability insurers sought in 2020 and 2021 to reverse unfavorable underwriting results. However, since 2022, new capacity, attracted by the higher rates and elevated account pricing, has entered the market, leading to significant declines in pricing for D&O liability.

As the end of the first quarter of 2025 approaches, renewal premium has continued to fall for certain types of accounts, particularly companies involved in initial public offerings (IPOs), special purpose acquisition companies (SPACs), and de-SPAC companies. For many public companies, however, the significant renewal price decreases will likely begin to moderate, which AM Best believes could benefit the market, given the potential headwinds D&O insurers will face. Accident year results over the near term may indicate that premiums fell too far, too quickly.

Improved underwriting performance and tighter risk selection have resulted in more favorable direct loss ratios the past few years, even as premium levels fell, as (**Exhibit 1**) shows. D&O underwriters are still benefitting from the significant rate and price increases and the more conservative underwriting practices that shifted the market's dynamics during the 2019-2021 period (**Exhibit 2**). However, a number of factors more than counter the positives seen to date.

One potential headwind is that adverse development is embedded in prior accident year incurred loss and defense and cost containment (DCC) expense reserves captured in the other liability (claims-made) statutory line of business. According to data from independent brokerage and consulting firm Woodruff and Sawyer, the first half of 2023 saw a record high number of

Analytical Contacts:
David Blades, Oldwick
+1 (908) 882-1659
David.Blades@ambest.com

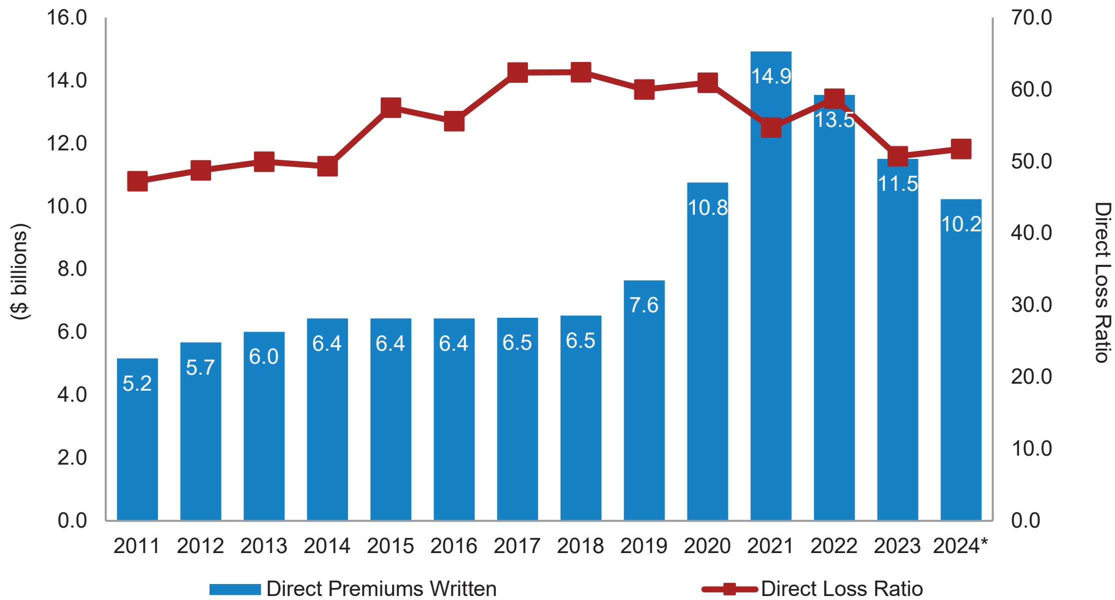
Chris Graham, Oldwick
+1 (908) 882-1807
Christopher.Graham@ambest.com

Contributors:
Sridhar Manyem, Oldwick
Elizabeth Blamble, Oldwick

2025-029

Exhibit 1

US Monoline D&O Liability – Standalone DPW and Direct Calendar Year Loss Ratio

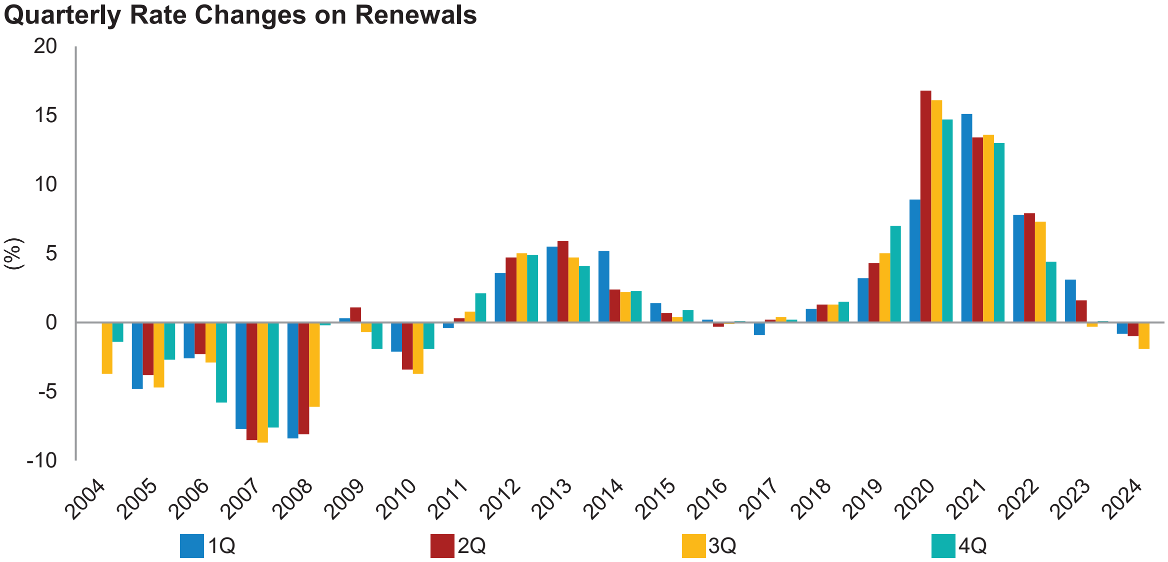


* Annualized values based on actual data through 3Q 2024.

Source: BESTLINK

Exhibit 2

Quarterly Rate Changes on Renewals



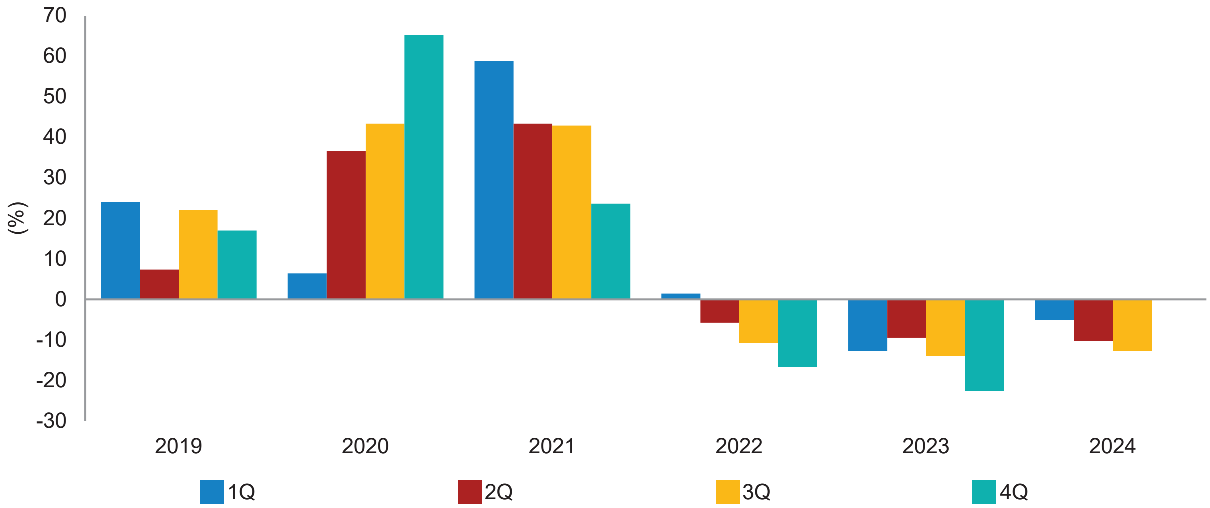
Source: Council of Insurance Agents & Brokers (CIAB)

securities class action settlements against US-domiciled companies, a trend that held through the first half of 2024, with negative implications for future calendar year profitability.

Despite recently favorable statutory underwriting results, the softer pricing of the past couple of years could ultimately dampen the financial performance of D&O insurers because the premium base to support future claims activity has diminished, even as risks are emerging and expanding. Through September 30, 2024, P/C industry direct monoline D&O premium had declined for the past ten quarters versus the same quarter the year prior. (**Exhibit 3**).

Exhibit 3

Percentage Change in Monoline D&O Liability Direct Premium Compared to Same Quarter One Year Prior



Source: BESTLINK

Competitive pressure from new market entrants the past few years underlies the concerns many participants have about the market. According to Woodruff and Sawyer's D&O Market Update for 2025, most D&O underwriters believe the risks corporate directors and officers face continue to increase. Most underwriters also expressed the belief that companies are not as aware as they should be of the frequency and cost of D&O litigation.

Once calendar year 2024 data has been aggregated and analyzed, AM Best will re-assess current pricing and loss reserve trends, in addition to opining on the impact of other key issues affecting D&O liability insurers. Those issues include but are not limited to the following:

- The rise in the number of securities class action lawsuits filed in federal and state courts in 2023 and 2024.
- The shifting focus of the plaintiff's bar from larger companies with a market capitalization above $2 billion to companies with a smaller market capitalization, which provides a greater number of opportunities for lawsuits.
- Claim severity attributable to social inflation as well as third-party litigation financing.
- Public and regulatory scrutiny over corporate environmental, social, and governance (ESG) programs.
- Advancing technologies and innovations that greatly benefit society but also present complex and challenging emerging risks.
- Concerns about AI, including the potential for lawsuits stemming from "AI washing," whereby companies or organizations make exaggerated or false claims about the use of AI in their products, services, or operations to make them appear more innovative or technologically advanced.

Published by AM Best

BEST'S COMMENTARY

A.M. Best Company, Inc.
Oldwick, NJ
CHAIRMAN, PRESIDENT & CEO **Arthur Snyder III**
SENIOR VICE PRESIDENT & TREASURER **Cynthia Young**
SENIOR VICE PRESIDENT **Lee McDonald**

A.M. Best Rating Services, Inc.
Oldwick, NJ
PRESIDENT **James Gillard**
EXECUTIVE VICE PRESIDENT & COO **Stefan W. Holzberger**
EXECUTIVE VICE PRESIDENT & CSO **Andrea Keenan**
SENIOR MANAGING DIRECTOR & CHIEF RATING OFFICER **Kenneth Johnson**
SENIOR MANAGING DIRECTORS **Edward H. Easop, James F. Snee**

AMERICAS
WORLD HEADQUARTERS
A.M. Best Company, Inc.
A.M. Best Rating Services, Inc.
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

MEXICO CITY
A.M. Best América Latina, S.A. de C.V.
Av. Paseo de la Reforma 412, Piso 23,
Col. Juárez, Alcadía Cuauhtémoc, C.P. 06600, México, D.F.
Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)
LONDON
A.M. Best Europe - Information Services Ltd.
A.M. Best Europe - Rating Services Ltd.
12 Arthur Street, 8th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

AMSTERDAM
A.M. Best (EU) Rating Services B.V.
NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

DUBAI*
A.M. Best Europe - Rating Services Ltd. - DIFC Branch*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Credit Rating Agency

ASIA-PACIFIC
HONG KONG
A.M. Best Asia-Pacific Ltd
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

SINGAPORE
A.M. Best Asia-Pacific (Singapore) Pte. Ltd
6 Battery Road, #39-04, Singapore
Phone: +65 6303 5000

Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Best's National Scale Rating (NSR): a relative measure of creditworthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global ICR using a transition chart.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

Version 011624