

Delivering the Tough Message in a Changing D&O Market



Featured Speakers



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About Ascend With Argo

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Agenda

What we'll cover today:

- Recent trends in the D&O market
- Drivers and impact of rate increases
- Delivering the tough message with empathy
- Addressing objections



Objectives

- Understand drivers behind changing market conditions, specifically in the D&O market
- Learn best practices in how to prepare when delivering a difficult message on changing rates
- Offer responses to common objections from clients related to price increases



Current Trends in the D&O Market



D&O Market

QUARTERLY INDEX OF D&O PRICING

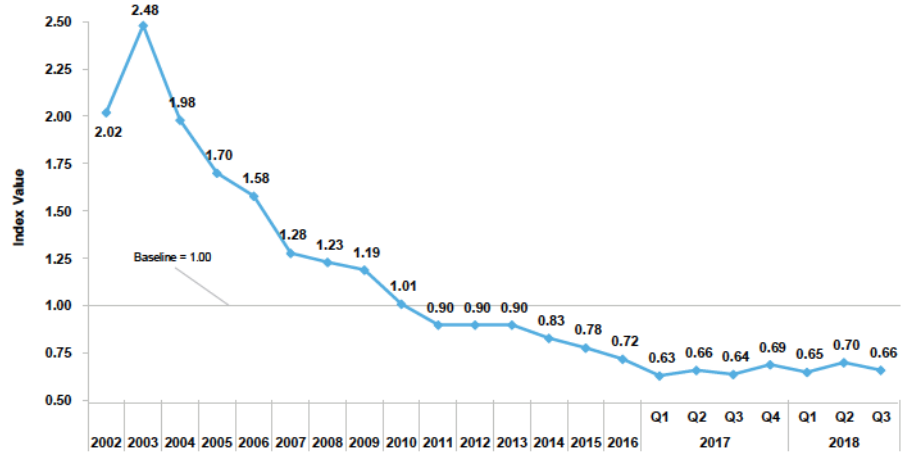
Q1-2002 through Q3-2018 | Base Year: 2001 = 1.00

D&O Pricing Index

▲ 3.1%

Q3 2018 0.66

Q3 2017 0.64



*Authored by Kyle Jeziorski, Founders Shield on March 14, 2019

Securities claims data

- Securities class actions remained at near-record levels for both core and merger objection filings.
- Driven by a large number of mega filings, market capitalization losses exceeded \$1 trillion.
- 2018 also saw more companies than ever facing the threat of securities litigation.

Author credit: Cornerstone

Why are D&O rates increasing?



Drivers for rate increases

- Increase in number of claims
- Loss costs increasing due to rising defense costs
- Pricing over last 10 years has decreased by over 50 percent
- Capacity decreases as carriers exit the business
- Coverage has expanded significantly, adding to increased defense costs

Which classes are impacted by rate increases?

Classes experiencing rate increases

Public companies

- 403 federal class actions filed: while 2 percent down from 2017, still nearly double the amount from 1997–2017 averages

Private companies

- California
- Financial distress
- Large unicorn private companies

Financial institutions

- Large private equity firms
- Large banks

What metrics do underwriters consider when evaluating a risk?

Key Factors considered when evaluating a risk

- Financial strength / Stock performance
- Class of business
- Leadership strength (Board of Directors)
- Business track record over time
- M&A activity
- Organization structure
- Claims history

How should I prepare to communicate a rate increase?



Plan ahead

- Identify potential high-risk accounts early – 90-day reviews.

Deliver the good with the bad

- Discuss upcoming renewals with brokers and insureds, acknowledging risks with rate stability as well as increases.

Be empathetic

- Don't just data dump
- Consider tone

How you handle this situation now will impact how the relationship progresses when the market turns.

Use Empathy Effectively

- Put aside your viewpoint.
- Validate the other person's perspective.
- Examine your attitude.
- Ask what the other person would do.
- Listen.



“3 F’s” Model for Resolving Objections With Empathy



What are some common objections I should prepare for?

Objection

We haven't had a claim. Why the increase?

Response

Rate increases depend on the risk and current pricing.

- Increasing regulatory costs for financial institutions.
- Increasing defense costs.
- Increasing frequency of claims.

Overall pricing decreases have impacted profitability.

Objection

I may have to go to RFP for our program if rates are going to increase.

Response

I understand your position, which is why I wanted to deliver this update to you early to allow time for us to do our due diligence on and even market the risk with other carriers.

Objection

They wrote this account new last year. Why the increase this year?

Response

They evaluate accounts on an annual basis.
Increasing defense and regulatory costs over the past year.

Objection

The underlying is getting an increase *and* the excess is getting an increase?

Response

I understand this news is hard to hear. Because the market is changing, we may want to market the program to confirm we're seeing the same rates from other carriers.

Because we have benefitted from low rates for some time, the market is adjusting.

From what we have seen, excess placements have seen more pricing compression than primary, which has created an even greater need for excess rate increases.

Summary

1. Price increases in current D&O market are justified and a good sign for long-term health of the industry.
2. Anticipate and be prepared to answer common objections when handling tough messages.
3. Approach these conversations with empathy.



Career Perspective

One last piece of advice:

- The marketplace will change throughout your career, so refining your skills in having this conversation will be important for continued success.



**What questions
do you have?**



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Thank you.