

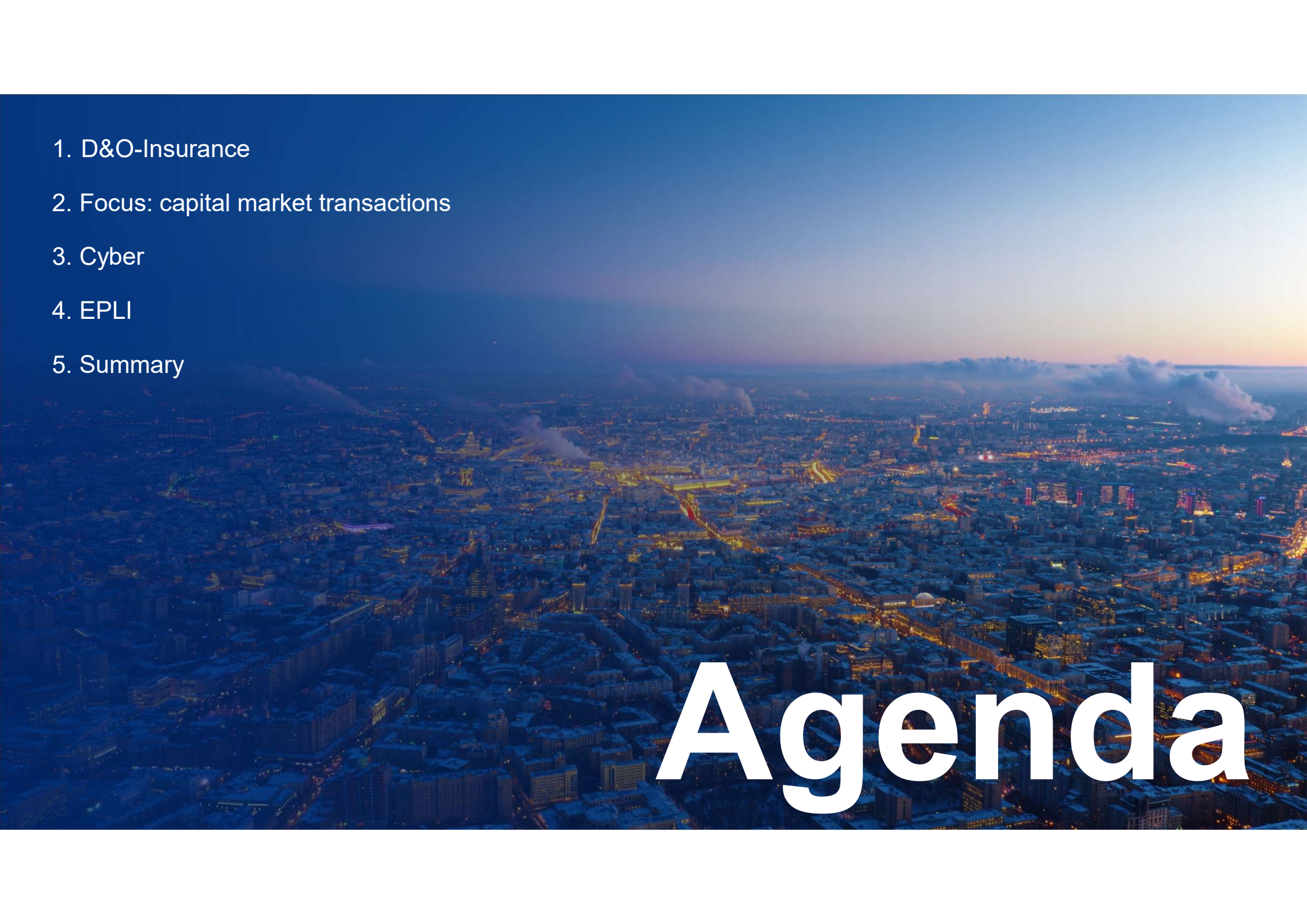


Rough seas make stronger sailors – Current trends and developments in the German financial lines market

AIDA Financial Lines and
Cyber Working Party Webinar

July 6th, 2021

Lukas Nazaruk, Head of FINPRO Germany, Marsh GmbH

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- An aerial night view of a city, likely New York City, showing a dense grid of buildings and streets illuminated with warm yellow and orange lights. The sky transitions from a deep blue at the top to a lighter, hazy blue near the horizon. The overall scene is a vibrant, high-angle perspective of an urban landscape at dusk or night.
1. D&O-Insurance
 2. Focus: capital market transactions
 3. Cyber
 4. EPLI
 5. Summary

Agenda

D&O-Insurance

Current liability trends

Recent D&O claims (public info only)

29.03.2021

Artikel drucken

CEO-Fraud bei Teleste: Gleiss Lutz erreicht Vergleich mit D&O-Versicherern

Der finnische Telekommunikationsanbieter Teleste hat sich nach einem so genannten CEO-Fraud, einer Betrugsmaschine mit geklauten Identitäten, nun mit seinen D&O-Versicherungen verglichen. 2019 war die deutsche Tochter des Unternehmens Opfer eines solchen Angriffs und verlor mehr als 7 Millionen Euro – nahezu den gesamten deutschen Gewinn des Jahres. Laut Statement des Unternehmens zahlen die Versicherer nun 3,2 Millionen Euro.

JUVE-Newsline | Impressum | JUVE-Datenschutzerklärung



Finland: TelCom provider Teleste experienced CEO fraud at German subsidiary with EUR 7M loss (almost yearly profit locally) → notified to D&O insurers in 2019 - according to statement of Teleste payment by D&O insurers of ~ EUR 3.2M

South Africa / Germany: manufacture of furniture – financial fraud – shareholders requesting damage f 136bn rand (~EUR 7.7bn) in 90 suits in South Africa / Germany and NL – might be satisfied with below EUR 1bn =

External accountants (Deloitte) agreed to join settlement with 78M EUR.

Settlement with D&O insurers could lead to EUR 78M payment by D&O insurers



Frankfurter Allgemeine
Wirtschaft
Tages

STEINHOFF-BILANZSKANDAL

Versicherung zahlt 78 Millionen Euro für Manager-Fehlverhalten

23.03.2021, 14:49

Beim deutsch-südafrikanischen Möbelhersteller Steinhoff ist infolge milliardenschwerer Bilanzmanipulationen ein großer Schaden entstanden. Einen kleinen Teil übernimmt jetzt die Manager-Haftpflichtversicherung.

Die Manager-Haftpflichtversicherer der ehemaligen Führungsriege von Steinhoff kommen für einen kleinen Teil des Schadens infolge der milliardenschweren Bilanzmanipulationen bei dem Handelsriesen auf. Aktionäre und Gläubiger könnten mit insgesamt 78 Millionen Euro rechnen, teilte der südafrikanisch-deutsche Konzern am Dienstag in Stellenbosch nahe Kapstadt mit.

STARTSEITE > ABO > WIRECARD-SKANDAL BIRGT D&O-GROSSSCHADEN

Wirecard-Skandal birgt D&O-Grossschaden

VON HERBERT FROMME AM 24. JUNI 2020

ARTIKEL DRUCKEN

Exklusiv Der Wirecard-Skandal wird mit hoher Wahrscheinlichkeit zu einem Großschaden in der D&O-Versicherung führen. Zusammen mit den Schäden, die wegen der Corona-Pandemie auf die Versicherer zukommen dürften, wird 2020 ein schwieriges Jahr für den Schadenverlauf der Sparte. Wirecard hat eine Deckung für mindestens 100 Mio. Euro abgeschlossen, hieß es der Branche. Die könnten vollständig aufgebraucht werden.

Herbert Frommes

VERSICHERUNGSMONITOR

Die Einigung mit den sogenannten D&O-Versicherern ist Teil eines Plans, mit dem Steinhoff eine Welle von 90 Klagen in Südafrika, Deutschland und den Niederlanden beilegen will. Die geschädigten Anleger fordern mehr als 136 Milliarden Rand (7,7 Milliarden Euro), sollen sich aber nach den Vorstellungen von Steinhoff mit weniger als einer Milliarde Euro zufriedengeben.

Der ehemalige Wirtschaftsprüfer von Steinhoff, Deloitte, hatte sich bereits im Februar bereiterklärt, bis zu 78 Millionen Euro zu einem Vergleich mit den Klägern beizusteuern.

Mit D&O-Police („Directors & Officers“) sichern Unternehmen ihre Manager vor den finanziellen Folgen eines Fehlverhaltens ab, die Versicherer zahlen in der Regel aber nur bei Fahrlässigkeit. Bei Steinhoff stehen sie nur für einen Teil der ehemaligen Führungsriege ein, darunter für Firmengründer Bruno Steinhoff und dem früheren Aufsichtsratschef Christo Wiese. Der ehemalige Vorstandschef Markus Jooste, Ex-Finanzvorstand Ben La Grange sowie der frühere Europa-Chef Siegmund Schmidt sind davon ausgenommen.

Germany: Wirecard AG (total assets of ¼ non-existing) D&O insurance cover of probably EUR 100M, which could be fully exhausted. Class action link: [Wirecard: Sammelklage anschließen für Schadensersatz \(rechtech.de\)](https://www.rechtech.de)

Current liability trends

High D&O settlements

Liability: majority of the claims in Germany are **entity vs. Insured claims** (private and public companies)

Main claims drivers:

- Compliance
- Banckruptcy related claims
- Event driven litigation
- US related claims

Rising topics:

- ESG, Climate
- Activist shareholders

Overview of some of the biggest D&O settlements in the last years:

Große D&O-Fälle in Deutschland

Vergleichssumme in Mill. Euro



*Jahr des Vergleichs

Source: Börsen-Zeitung v. 16.06.2021, Fall VW alarmiert den Markt für D&O-Versicherung



Current liability trends

High D&O settlements (VW)

- Report published by VW
- Settlement still needs the approval from the shareholder's meeting
- Tower of EUR 500m, settlement of around EUR 270m
- Many of the relevant D&O insurers in Europe involved (see next slide)
- “Shaving of limits”
 - ▶ also on other big settlements



Current liability trends

VW Settlement

Layer	Insurer	Payment 2015 (EUR)
0	Zurich	25.000.000,00
1	AXA XL	22.000.000,00
2	AGCS	21.750.000,00
3	AXA XL	20.525.000,00
4	AIG	17.500.000,00
4	HDI	17.500.000,00
5	Liberty	13.000.000,00
5	AWAC	9.750.000,00
5	AXA XL	6.500.000,00
5	AGCS	3.250.000,00
6	TMHCC	12.500.000,00
6	MSIG	7.500.000,00
6	CNA	3.000.000,00
7	QBE	15.300.000,00
7	Lloyd's 4711	5.100.000,00
7	R+V	5.100.000,00

Layer	Insurer	Payment 2015 (EUR)
8	ARGO	7.602.500,00
8	Great Lakes	7.602.500,00
8	Starr	6.082.000,00
8	Brit	4.561.500,00
8	RSA	4.561.500,00
8	ANV / Lloyd's 1861	3.041.000,00
8	Arch	3.041.000,00
8	AXA XL	3.041.000,00
8	TMHCC	3.041.000,00
8	Lloyd's 0623 und 2623	1.520.500,00
8	Lloyd's 2468	1.520.500,00
9	AIG	5.500.000,00
9	SwissRe	5.500.000,00
	Summe	261.890.000,00

Layer	Insurer	Payment 2021 (EUR)
0	Zurich	3.500.000,00
2	AXA XL	975.000,00
2	AIG	650.000,00
3	AIG	900.000,00
3	HDI	900.000,00
3	QBE	600.000,00
3	Generali	300.000,00
3	ANV / Lloyd's 1861	150.000,00
3	Navigators / The Hartford / Lloyd's 1221	150.000,00
	Summe	8.125.000,00

Market environment

Limit Development

Limit development

- In the past few years continuously increasing limits in Germany/continental Europe

Development 2019/2020/2021

- Declining overall capacities, especially in the large customer area
- Partly complete withdrawal of insurers
- Withdrawal from a certain customer size, exclusionary industries
- Referral obligation ▶ Processes, timing
- US-Exposure (Direct Listing or ADR I-III)
- Limited Side C coverage
- 2021: Further capacity reductions, provided that programs have so far been "spared"

But

- High program limits are still possible in various cases

Challenge

- Primary reductions and program design

Market environment

D&O – total limit movement

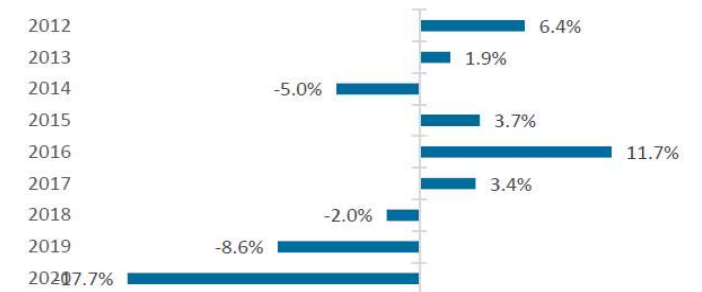
Europe

% OF CLIENTS WITH D&O LIMIT CHANGES



Year of Renewal	% Of Clients With D&O Limit Changes		
	Increase	No Change	Decrease
2016	46.2%	53.8%	0.0%
2017	23.1%	46.2%	30.8%
2018	21.2%	63.6%	15.2%
2019	12.5%	54.2%	33.3%
2020	3.2%	35.5%	61.3%

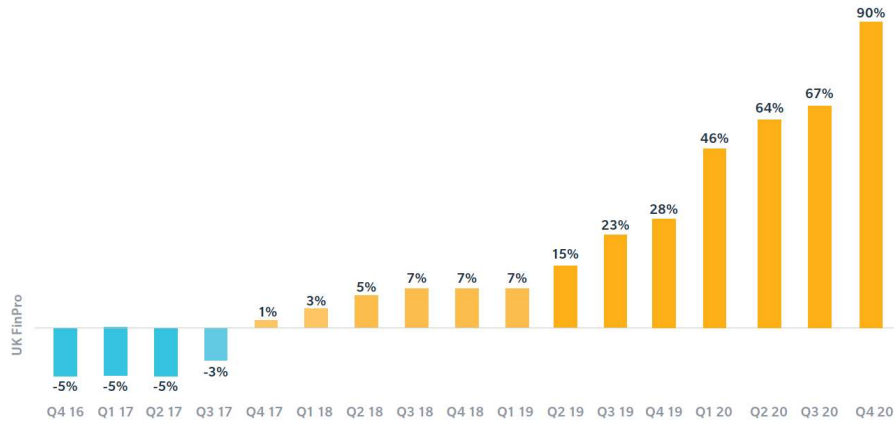
Year of Renewal	Total D&O Limit Movement
2012	6.4%
2013	1.9%
2014	-5.0%
2015	3.7%
2016	11.7%
2017	3.4%
2018	-2.0%
2019	-8.6%
2020	-17.7%



Market environment

Premium

- The premiums have risen significantly on average in the last few renewals



- For (US) listed companies, in some cases significantly higher premium increase
- Further increases in premiums are to be expected in some cases
- But: a certain stabilization can currently be observed



Market environment

Wording



Condition restrictions especially if programs have so far been "spared"



Bankruptcy Exclusions



Cyber exclusions or clarifying endorsements ("cyber affirmative")



Perceptible restrictions, e.g.:

- Restrictions / expiry of extended reporting periods
- Optional extension of the insurance period / premium-neutral extension
- Deletion of
 - Additional limits, e.g. for defence costs
 - Guarantee of continuity
 - Coverage extensions (e.g. EPLI, legal aid protection)

Focus: Capital market transactions

Focus: Capital market transactions

- Highest number of German capital market transactions (**IPOs** , SPOs, debt transactions) in 2021 since 20 years
- Still a very vital market for stand-alone **POSI** capacities for transactions in Germany/Europe ► project coverage for the involved stakeholders
- For US transactions (foreign filers): only D&O coverage available
- Current trend: SPAC/De-SPAC transactions
 - Many US SPACs
 - First German/European SPACs/De-SPACs
 - Very low appetite in the insurance market at the moment



Cyber

Cyber Insurance

Violent hardening since 2020

Insurers continue to increase pressure after 18 months of hardening terms.

- Short term: ransomware claims continue to hit insurers
 - BI & costs are at the heart of the attention
 - ▶ New cover restrictions since 2021
 - Reimbursement of ransoms: a political topic – see . AXA France
 - ▶ Underwriting information is focusing on this topic
- Mid terms: systemic risk and supply chain
 - Increase in frequency of these events (MS Exchange, Solarwind)
 - See Webinar Marsh/Solarwind: [SolarWinds Cyberattack: Lessons Learned \(marsh.com\)](https://www.marsh.com/resources/webinars/solarwinds-cyberattack-lessons-learned)
 - See Webinar CyberWar/Infrastructure → Marsh push hard the market here also
 - ▶ Additional cover restrictions
- An IT security maturity seen as poor in average by insurers
 - Low reaction of companies in case of cyber attacks (ex: MS exchange patched late)
 - Insurers seeking to reduce the volatility on the frequency ransomware cases (ie retention?)

A very hard market

Cyber insurance will be an expansive line of business, only accessible to good risks

Capacity / cover shrinking

Retention going up

But no exit from the market

Cyber Insurance Market Snapshot

Pricing and Terms

Rates



Average CE* premium increase in

Q1 2021:
38.7%+ YoY

*Regional detail follows

Limits / Coverage



Carriers have begun restricting total exposed limits and ransomware-related coverages.

Claims

Frequency



Ransomware is more accessible for bad actors. Short tail nature of losses is changing insurer profitability weekly.

Severity



Average downtime from ransomware is up 53% YoY to 19 days. Demands is in the millions.

Underwriting

Information Needs



Full application and responses to ransomware Q's. Non-invasive scans for vulnerabilities is common.

Carrier Flexibility



Ransomware responses required prior to quoting. Third party scans may lead to remediation requests.

Future Expectations

Anticipate increases to accelerate into second half of 2021.

Future Expectations

Ransomware attacks will continue to increase in sophistication and more often include data exfiltration.

Future Expectations

Underwriters will demand additional information to assess risk and may further restrict cover for systemic loss.

EPLI

EPLI

Observations

- Heavy premium increases in the last two years
- Premiums rose again significantly in the first half of 2021
- **Alarm: First companies will not renew their EPLI programs due to pricing reasons**

Trends

- Significantly higher underwriting requirements ► More risk information
- BIPA claims are increasing ► This leads to respective exclusions
- Stand alone solutions for US only are an increasing trend in Germany

Insurers

- EPL capacities are drastically reduced.
- More and more insurers are withdrawing completely from this segment.

Overall Financial Lines market environment

Summary



Limits



Premium



Claims



International / Reinsurance /
Captive Solutions



Pandemic



Financials



Anticipation /
Timing



Wording



Sitz: Frankfurt am Main; Handelsregister: HRB 12141; Amtsgericht: Frankfurt am Main

Geschäftsführung: Lukas Herrmanns (Vors.), Oliver Dobner, Frank Harting, Thomas Olaynig

Vorsitzender des Aufsichtsrates: Dr. August Joas

A business of Marsh McLennan