



**SOMPO
INTERNATIONAL**

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Financial Institutions Market Set To Change

As the Financial Institutions (FI) D&O market becomes more challenging and conditions continue to harden, the economic stress created by COVID-19 will see a clear separation emerge between those who have the appetite, capacity and flexibility to lead in this class and those who don't.

Commercial D&O cover has come under pressure from a litany of issues impacting long-tail business generally.

In recent years, the D&O market has struggled to keep pace with the rise in litigation funders, growing litigation payouts and so-called social inflation. In many cases, reserving has not been sufficient to account for prior-year exposures, particularly in the hardest hit sectors. Covid-19 has now added further pressure. There is concern that companies in sectors from pharma to retail, mining to energy, could be faced with future claims over mismanagement of the crisis, with operating conditions set to be challenging for years to come.

Inevitably, these stresses have spilled over into the FI market. As recession bites, institutions are more exposed to the risk of defaults, litigation, securities class actions and multi-jurisdiction regulatory interventions. Concern is highest regarding territories that have historically seen high instances of D&O-related claims including the US, especially for public companies, and Australia.

Notwithstanding these challenges, we have seen some positive shifts in the FI D&O market in recent years.

Progress is tangible

Following intense regulatory input in the aftermath of the 08/09 financial crash, the financial services industry has undertaken some positive remediation work.

The combination of more stringent regulation and robust oversight has resulted in many institutions exiting non-core specialties they may have been ill-equipped to manage, reducing product complexity, bolstering internal audit and compliance capabilities and improving the quality and suitability of advice given.

We are hopeful that this remediation work means the industry is in a better position from both a reputational

and structural standpoint to respond to the current challenges. Institutions that were seen to have contributed to the financial crash are now playing a role in managing the recession that threatens as we manage the impact of COVID-19. Institutions that previously helped fuel the housing crisis are now helping to hold the forces of economic chaos at bay.

But although progress has been made, and regulatory oversight has ensured institutions' business continuity planning is in good shape, there is no doubt the sector still represents a difficult risk for carriers in the months to come.

How well the industry manages to deal with threats will in large part depend on the extent and timing of the economic recovery.

But challenges remain

Fraudulent loan applications, social engineering, malware and phishing attacks represent a bigger challenge for employees working from home with weaker IT security, family distractions and reduced access to informal advice and support from peers. Against this backdrop it is inevitable that financial crime threats will also increase and concerningly, we are already seeing evidence of this in the type and frequency of recent notifications.

How well the industry manages to deal with threats will in large part depend on the extent and timing of the economic recovery. Although we are hopeful that this could be relatively quick, caution must remain the watchword in the new environment.

FI D&O market will change

While the trend of the last 20 years has been for many carriers to attempt to lead, economic uncertainty, capacity constraints and the quest for efficiency and profitability are already starting to polarise the FI D&O market. Some carriers are pulling out completely, others are favouring a follow-only efficiency strategy, and a minority are reaffirming



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their commitment to the class where they have a perceived underwriting advantage and support for growth by senior management.

As we look ahead, specialist FI markets will want to engage more effectively with insureds on every risk and build long term relationships based on improved understanding. They will also be placing renewed emphasis on technical underwriting and better training. While this has unfortunately not always been a focus for many carriers during the soft market conditions, we have a real opportunity now to build for the future.

The stress created by COVID-19 will see a clear separation emerge between those who have the appetite, capacity and flexibility to lead in this class and those who don't. Sompo International is very much in the small group of those that continue actively to participate in this class.

LEARN MORE

Our underwriters, claims professionals and risk control specialists can help you address the exposures created by today's rapidly changing marketplace.

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ABOUT SOMPO INTERNATIONAL

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