D&O & Cyber Supplements - Current Issues & Proposed Solutions

D&O Issues:

- The calendar year report is the only industry source for D&O loss ratio experience. It is prominently featured in many insurance periodicals and ratings agencies reports.
- Despite being written on a claims-made basis, D&O is not a short tail line of business. The Schedule P OLCM segment displays an historical pattern of adverse loss development. D&O , the largest component of OLCM, is likely the primary driver.
- As a result of the above, the calendar year results often present an inaccurate view of D&O profitability. For example, the attached exhibit shows relatively consistent calendar year loss ratios while rate levels were increasing by significant amounts. This apparent disconnect likely results from adverse loss development in recent years.
- So, issuing the supplement on a calendar year basis while it is essentially the sole source of industry D&O loss ratios, may result in potentially misleading conclusions and actions by individual carriers. There are many new players in the D&O space who may be relying on this data for pricing guidance and growth targets.

D&O Proposed Solutions:

- The obvious solution is to change the supplement from a calendar year basis to an accident year basis. This would present a more accurate view of results and also shed light on historical reserve adequacy for the industry and for individual carriers. It should result in more informed decisions, especially for newer market entrants.
- Producing the data should not be an issue for individual carriers as the accident year data is simply a subset of the Schedule P OLCM reporting. The current calendar year report is driven by quarterly changes in accident year losses.

D&O & Cyber Supplements - Current Issues & Proposed Solutions (cont.)

Cyber Issues :

- Cyber is comprised of both first party and third party losses and has a much shorter reporting period than virtually all other segments in the Schedule P OLCM segment. Therefore, the supplement being on a calendar year basis is not nearly as big of an issue as for D&O. The supplement should nevertheless be changed to an accident year basis for more accurate results. More on this in the "Proposed Solutions " section.
- More importantly, the significant growth in Cyber premiums resulting from both increasing product awareness and purchases as well as rising rates to address emerging loss trends, is impacting the homogeneity of the Schedule P OLCM results. The fastest growing product component in Schedule P OLCM also has the shortest reporting period. To the extent Schedule P data is used to evaluate reserve adequacy for individual carriers and the total industry, the inclusion of Cyber in the OLCM segment will make it more difficult to analyze especially with Cyber expected to continue growing at a faster rate than other products.

Cyber Proposed Solutions :

- The best solution is to remove Cyber from OLCM and create a separate Cyber segment. Until that can be implemented, change the Cyber supplement to an accident year basis, so it can be subtracted from Schedule P OLCM . Separate analyses can then be done for Cyber and for the more homogeneous version of Schedule P OLCM.