How To Renew Your D&O During A Pandemic

board of directors leadership pandemic

Summary: There may be challenges in renewing your director and officers (D&O) insurance during the pandemic. We have some considerations.

Interestingly, the word "sushi" means "sour-tasting" and refers to the main ingredient of vinegared rice. While insurance prices can be high, director and officers (D&O) insurance doesn't need to put a sour taste in your mouth. We explain how to address your renewals during the pandemic.

The market for D&O insurance is hardening, with rates up between 22% and 58% from Q1 to Q2 of this year. An increase in claim frequency and severity began pushing rates up in 2018, and the pandemic has meant higher prices across the board for all kinds of property and casualty insurance.

Quotes for D&O insurance are also taking longer than before the pandemic; underwriters want pandemic-related information from applicants: how banks responded to both employees and customers, high-risk loan and investment exposures, and the technology ramifications of having employees working remotely. Getting a quote may take months.

The quotes you get probably won't include multi-year options, as the pandemic taught underwriters just how quickly circumstances can change. As a result, some underwriters are also nervous about taking on new clients.

Given all that, there are steps your institution can take to smooth its path to a D&O renewal.

Start early. Have a renewal strategy presentation with your broker up to four months in advance of the need. A sense of the rate increases your broker's other FI clients have seen can help you budget. No one wants to spend more money on D&O coverage, but higher rates are even less palatable when they're rushed or a surprise.

Expand your options. Invite your broker to consider other carriers. Make it clear that you're looking for a competitive review. You may decide to stay with the incumbent. Even so, it is to your institution's advantage to make it clear to your broker that a full competitive review is expected.

Explain how you excel. Most insurance rates rely on actuarial information. If an average bank employee in your area spends $5K a year on medical care, for instance, then it stands to reason that your staff will do the same, and a medical insurance company will price your policy accordingly. But D&O lacks actuarial studies that could predict the likelihood that your institution will make a claim. Instead, insurers read written responses to their questions and listen to bank executives talk about operations, then decide how good they think management might be. Better management, the logic goes, means less chance of a claim.

Ask for an early summary of renewal options. Ask the question as soon as you can. That probably won't be more than a month in advance, but you should still take all the time companies can give you to consider your choices.

Get board review. Communicate to your board that you are aggressively reviewing D&O coverage, but that costs are rising. Most boards pay close attention to D&O insurance and will want to know that you've been proactive and transparent, particularly in light of what will likely be higher costs.

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