Despite reduced capacity, risk managers report no trouble obtaining D&O coverage

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Although capacity for directors and officers' liability insurance has contracted significantly and prices have soared in the past two years, the vast majority of professional risk managers say they are obtaining adequate coverage for their companies, according to a survey by Allianz Global Risks.

Of the 78 risk managers and their insurance brokers who renewed D&O insurance in the past six months, 87 percent say they received adequate coverage. Similarly, 84 percent of an additional 31 respondents who will renew D&O policies in the next six months expect to obtain adequate coverage.

"Allianz and other new players who have recently entered this market have helped make up capacity that was lost when other carriers exited the market or pulled back on their D&O exposure," says Brian Gauen, vice-president of underwriting for D&O liability insurance for Allianz Insurance Co.

"A year ago, risk managers had major concerns about the availability and cost of D&O liability coverage. This data show most buyers have been able to solve their coverage problems," notes Jack Hampton, executive director of the Risk and Insurance Management Society Inc.

Still, a significant number of companies have had to accept a greater share of the D&O liability risk. Nearly half (47 percent) of the risk managers, who attended the annual RIMS conference in Chicago last week, say they assumed more financial risk through co-insurance, which requires the insureds to take on greater financial responsibility for any class-action securities claim against the company.

In addition, almost one in three (31 percent) traded entity coverage, which protects the overall company's direct liability in a securities lawsuit, in exchange for a pre-set allocation clause. Such a clause guarantees the percentages that the carrier and the insured company will each pay in the event of a securities claim against the company's directors and officers -- but does not insure the company itself in a securities lawsuit.

An even greater number of companies who will renew coverage in the next six months are willing to take on more risk. More than six out of 10 (61 percent) expect to assume more co-insurance while 48 percent would be willing to exchange entity coverage for a fair pre-set allocation clause.

"This greater risk-sharing gives companies more incentive than ever to ensure strong corporate governance practices and behavior," says Gauen. "Today, carriers are spending considerably more time investigating prospective clients, including meeting with senior management and requiring thorough documentation of every company's corporate governance programs."

In fact, more than three out of four (78 percent) respondents who have recently renewed policies say they provided significantly more documentation of governance activities to underwriters. ❒