

Cost of corporate liability insurance declines in 2006

Decrease in contrast to years of increases

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The cost of buying liability insurance for corporate executives and directors finally began to decline last year after several years of major price increases, a new survey has found.

A Spencer Stuart review of insurance costs for Canada's 100 largest companies found premiums dropped 14 per cent to an average of \$1.39-million per company, based on the most recent information published by each company.

A year earlier, companies reported facing an average 26-per-cent increase in their directors' and officers' (D&O) liability insurance premiums. Since 2001, many public companies have seen their premiums double or even triple.

Insurance industry experts say the recent decline in costs is a result of a decrease in shareholder lawsuits, especially in the United States, and to growing competition as more insurers have moved into providing D&O insurance.

"If you check out the securities class actions taking place -- in the U.S. in particular -- there seems to be a lessening of the frenzy," said David Griffiths, senior vice-president at insurance broker AON Reed Stenhouse Inc. in Toronto. "It appears the market has kind of settled out."

Mr. Griffiths said there was an "overreaction" in the insurance industry following the collapse of Enron Corp. in late 2001 and subsequent corporate scandals in 2002 and 2003.

"Some [companies] including the major ones, may have been overpaying a bit, and they'll see some pretty nice reductions still coming in."

Elan Prutzer, chief executive officer of Toronto-based Executive Risk Insurance Services, which provides D&O coverage, said he believes the liability risks are unchanged and there are still major settlements occurring in Canada and the United States on D&O cases. He credits the falling prices primarily to growing competition in the D&O sector.

"There has been significant competition that has entered the marketplace, a lot of new players in Canada," he said. "There's been a tremendous amount of capital poured into the insurance world and, like water, it's trying to find its way into areas where it can be productive."

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He also said that some companies are seeing their terms, or amount of coverage, falling along with the decline in prices.

The Spencer Stuart study found Canada's 100 largest companies have decreased their total coverage by 5 per cent to an average of \$110.9-million per company. The average deductible also fell 4 per cent to \$2.2-million.

Mr. Griffiths said that for most companies, D&O insurance costs have remained relatively stable for the first tier of primary D&O coverage, but have begun to decline significantly for so-called excess coverage. This has a particular impact on major corporations, because they are most likely to buy large amounts of excess coverage to supplement the primary package.

Mr. Griffiths said that in 2000, for example, excess coverage cost less than half the amount of the first tier of primary coverage. By 2004, the price of excess coverage had risen above 90 per cent of the price of primary coverage. He says the price has since dropped down to about 70 per cent.

Mr. Pratzner said small and medium-sized companies that are not publicly traded have also seen a significant drop in prices because they are perceived as less risky.