INSIGHTS | APRIL 2020

Transactional Risk Insurance 2019: Year in Review

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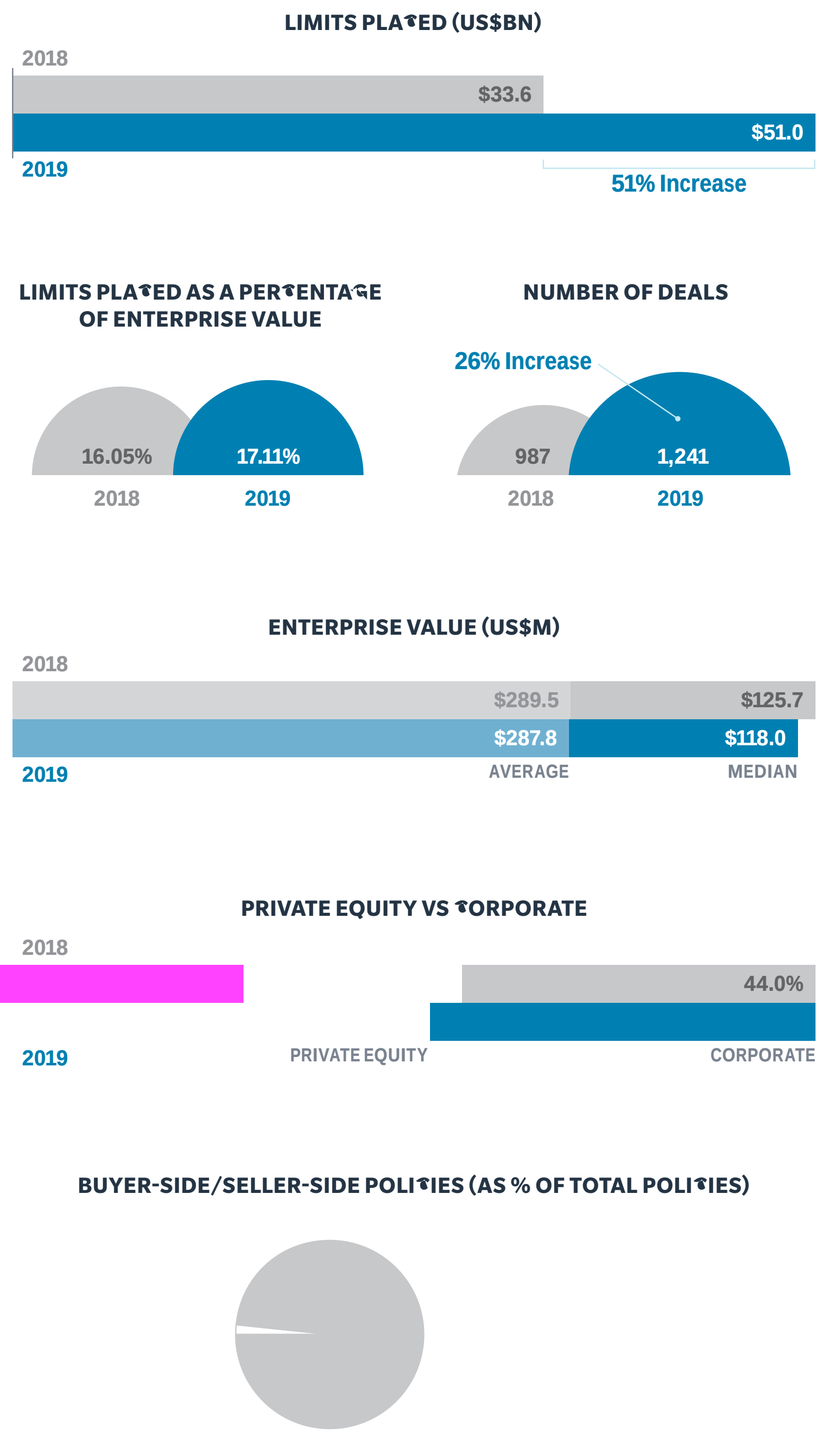
FIGURE 1

Global M&A value tops $3 trillion for sixth straight year.

FIGURE 2

Transactional risk insurance limits placed by Marsh JLT Specialty increased 51% year-over-year.*

SOURCE: MARSH JLT SPECIALTY



Regional Trends

North America

In 2019, the transactional risk insurance market remained robust in North America, with insurer capacity exceeding $1 billion in limits for a single transaction and more than 20 insurers offering terms on a primary basis.

Transactional risk insurance limits placed by Marsh JLT Specialty in the US and Canada grew to $19.6 billion in 2019, a 42% increase over 2018. The number of polices placed increased by 28%, to 851, while the number of closed transactions increased by 30%, to 526.

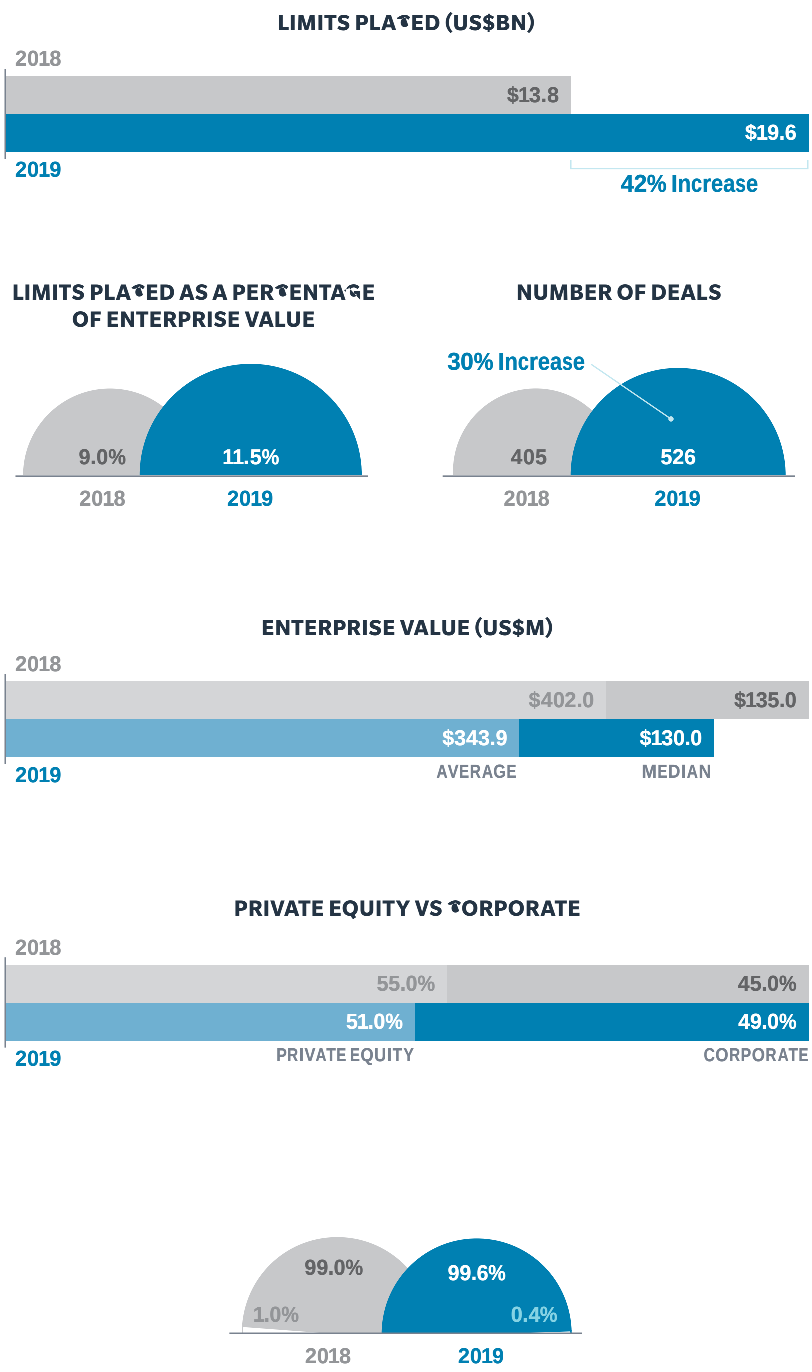
Market competition continued to drive a favorable premium rate environment for insureds during the majority of the year, with primary layer representations and warranty (R&W) premium rates declining by 11% from 2018, and down 34% from 2015. We anticipate that primary layer pricing will increase slightly in 2020, resulting from adverse claims activity, though tempered by robust competition in the market.

While rates continued to decrease in 2019, other key terms remained similar to 2018. Private equity firms continued to represent the majority of insureds in transactions placed in the region during 2019 — approximately 51% of policies. Still, the trend of corporate/strategic buyers increasing their use of transactional risk insurance continued in 2019, and we expect it to continue in 2020 and beyond.

FIGURE 3

North American transactional risk insurance market remains robust.

SOURCE: MARSH JLT SPECIALTY

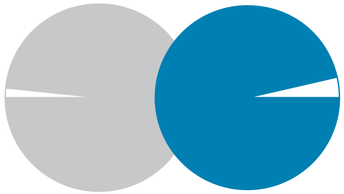


Notable trends in 2019

Deductibles: Deductibles held steady at approximately 1% of enterprise value for most transactions, with a dropdown feature to 0.5% of enterprise value at the 12-month anniversary of closing. On

FIGURE 4

Deal value in EMEA decreased in 2019, though



Notable 2019 Trends

Size of deal insured: Our data show both an increase in the average enterprise value of deals insured and a decrease in the median enterprise value. The emergence of, and competition between, specialist insurers focusing on SMEs mean the product is now economical and efd:

Pacific

In 2019, M&A deal value across the Pacific region decreased; however, we saw an increase in the number of W&I insured deals.

Overall, Australian M&A transactions totalled US$58.5 billion in deal value in 2019, the lowest value since 2013. Domestic M&A deal value dropped year-on-year by about 58% to US$21 billion, the smallest annual amount over the last seven years. Inbound deal value fell by 2.3% to US$37.4 billion compared to 2018. Private equity buyouts totalled US$12.4 billion, a 39% decrease in terms of deal value compared to 2018. Private equity exits more than halved in value year-on-year, recording just US$3.2 billion in value across 25 deals.

Despite working on a greater number of transactions in the region in 2019 than in 2018, we placed lower levels of limits. This was due primarily to a sharp decline in the average deal value of W&I-insured deals, to US$187.5 million in 2019 versus US$244.3 million in 2018, a decrease of about 23%. The average limit purchase — as a percent of enterprise value — was 28%, nearly unchanged from the prior year.

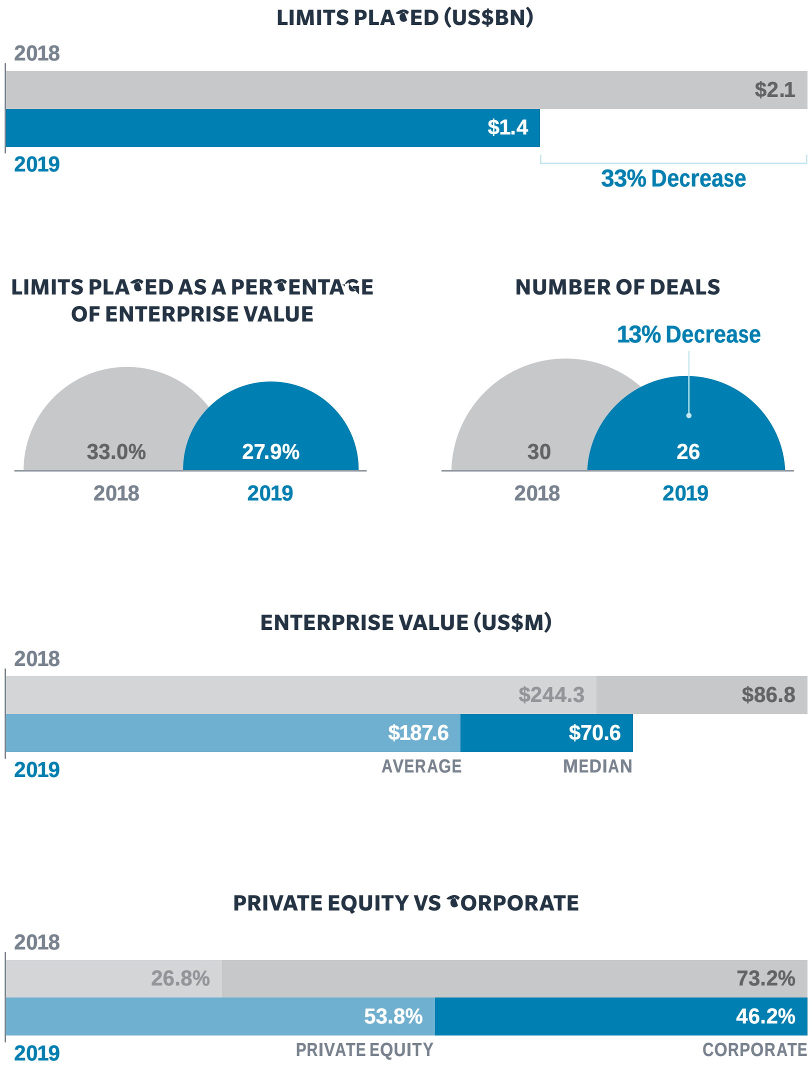
The average premium rate in 2019 declined to 0.96%, down from 1.05% in 2018.

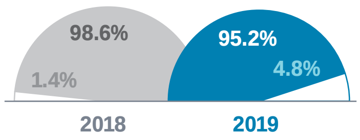
Take up rates of W&I generally remain strong in the Pacific M&A market as the product continues to be an integbWeh5egntegbast UraI g553.7 (A (t U)-1t)-3.5dA (t U)-1tt U7 (r)-14.5 (a)-28 (e 2(h)-6.2 (ew Z1 (ha)-12.9 ($)33.2 (1 (r I)-

FIGURE 6

M&A deal value decreased in the Pacific in 2019, though the number of W&I insured deals rose.

SOURCE: MARSH JLT SPECIALTY





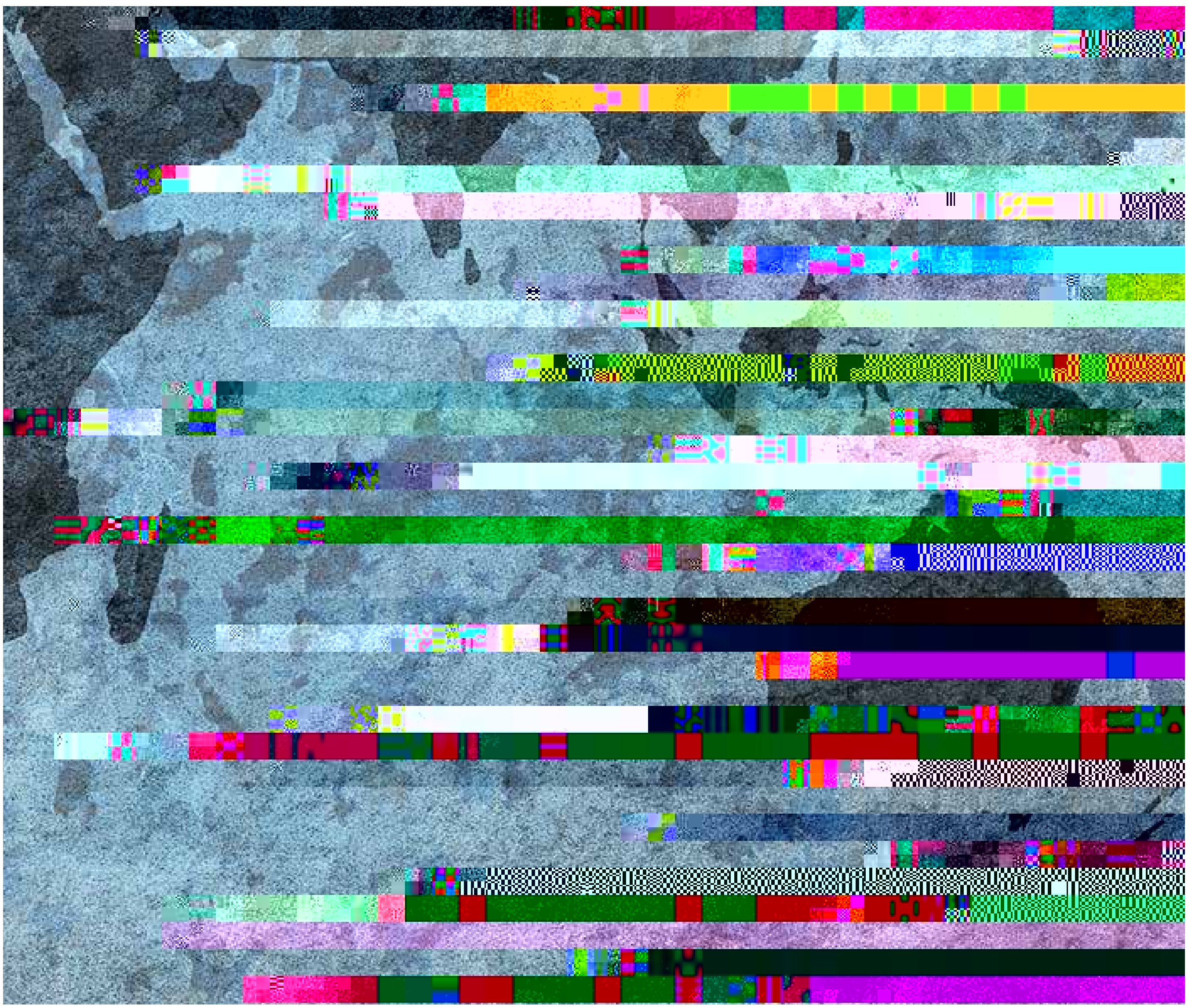
Notable 2019 Trends

"Sell-buy flip": For sellers — private sellers, private equity, and, increasingly, corporates — W&I is now a virtually obligatory deal feature. For buyers, it is generally well understood that W&I will be part of the transaction. Deals that attempt to limit recourse or provide no recourse for buyers are known colloquially as "sell-buy flips." Much of the innovation has been incremental, with an aim toward making the W&I process as efficient and frictionless as possible while ensuring that the winning bidder in an auction scenario is in a position to achieve strong coverage.

Non-traditional risks: In the Pacific W&I marketplace, insurers are increasingly willing to entertain non-traditional risks, such as the use of W&I for public market transactions. Additionally, many insurers have widened their appetite for W&I-adjacent risks, such as tax liability and contingent risk.

Tax policies: Regarding tax liability, the Australian Tax Office has ramped up enforcement efforts, and CFOs, accountants, and tax advisors are increasingly concerned with tax issues. In response, we have a newly established team to support clients and centers of influence that are increasingly searching for more effective ways to mitigate tax risk.

Claims: In 2019 there was a large increase in both the number of claims notifications, and the total quantum of those claims, a change in what had historically been a benign claims environment in the Pacific region. This can be viewed as a positive development in this mature marketplace as the successful resolution of these claims will serve to demonstrate the efficacy of W&I as a transactional tool.



ABOUT MARSH

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