

NOVEMBER 2018

M&A INSURANCE SPECIALISTS

W&I Insurance - **Claims Analysis**



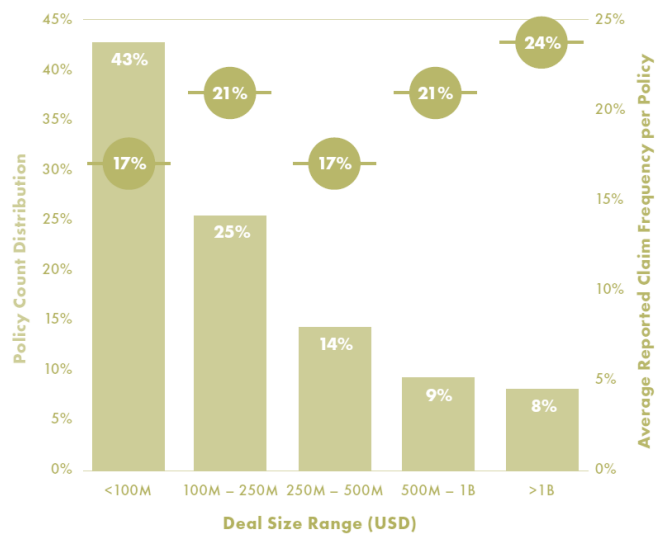
L I V A

LIVA has analysed some of the headline points, of publicly available claims information, from AIG's Claims Intelligence Series (2018 and 2017) and an ANV Claims Fact Sheet (2017). Please note this is not a like-for-like comparison as insurers have varying risk appetites, calculation methods and samples in preparing their statistics.

Links for the full reports are contained in Sources below.

Increasing claims notification rate

Fig 1 W&I Reported Claim Frequency by Deal Size



"It is almost impossible to cover every base for deal sizes that exceed \$500m" – Angus Marshall (UK M&A Manager, AIG).

- AIG note that claim notification rates have risen from one in seven (14%) in 2017 to just under one in five (19.4%) in 2018 (data based on 2,000 policies placed globally between 2011 - 2016). It is worth noting deals over USD 1bn have the highest notification rate which speaks to the added complexity of these types of M&A transactions.

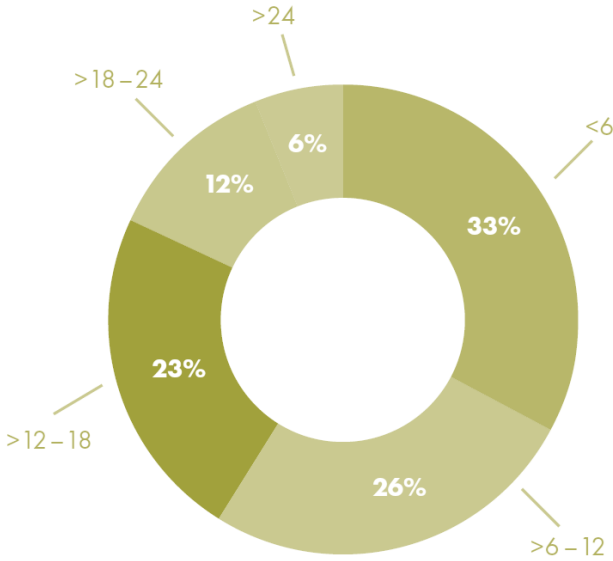
- The factors playing into the rising notification rate will likely be (i) increased volume of policies issued per year, (ii) expanding the jurisdictions in which policies are issued each year, (iii) broader coverage offered under the policies, and (iv) increased sophistication and knowledge of the product by clients.

- ANV note that, as of August 2017, around one in eight (c. 12%) of their policies had received a claims notification (data based on 350 policies issued since 2013 mainly across continental Europe and UK). Their Fact Sheet does not provide data as of 2018 or any historical data of trends compared to prior years.



Timing of notification

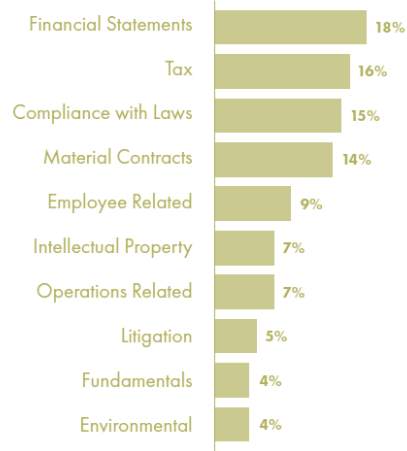
Fig 3 W&I Distribution of Average Claim Report Lags from Policy Inception Date (in Months)



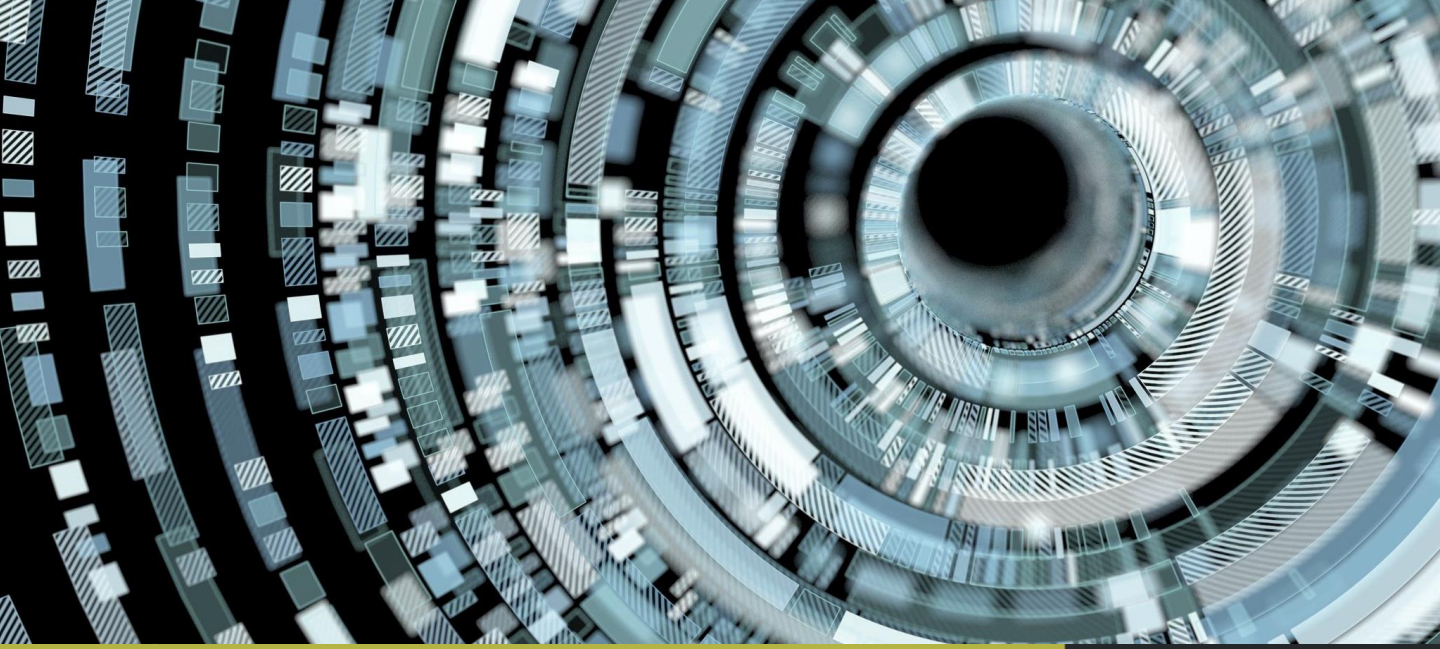
- AIG report that 59% of notifications occur within the first 12 months (33% < 6 months, 26% > 6 to 12 months).
- It is interesting to note that 6% of notifications occur 24+ months after policy inception, over two years post acquisition.
- ANV report that 66% occur within the first 12 months (25% < 6 months, 41% > 6 to 12 months).

Breach Type

Fig 4 W&I Reported Incidents by Breach Type – GLOBAL TOTAL



- AIG report that notifications in relation to financial statements are the biggest driver of claims globally but that tax is the biggest driver in EMEA (24% of claim notifications received).
- We agree with the AIG opinion that this is a consequence of acquisitions involving pan-European targets that are the subject of tax regimes in each jurisdiction which they operate in and, furthermore, the challenges in due diligencing these in a conclusive manner, particularly in a time compressed M&A process.
- There is some deviation from this when analysing a particular industry. AIG comment that in the Healthcare & Pharma sector, Compliance with Laws is the biggest driver of claims notifications and in the Technology sector, Intellectual Property matters account for a large proportion of claims notifications.



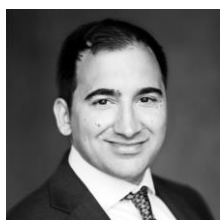
SUMMARY

- In practice, as W&I is increasingly used on M&A transactions we are likely to see more meaningful data from insurers produced. Various case studies have documented pay-outs in the £mm's demonstrating the product's value in an M&A context.
- Our experience shows that involving your broker at the outset of a claim notification helps protect the interests of the insured and align the parties for the claims discussions.
- When choosing an insurer for a M&A transaction, their claims experience and capabilities needs to be a factor in selection, alongside commercial terms and initial coverage offered.

Sources:

1. [AIG - M&A Insurance - The new normal?](#)
2. [AIG - M&A Insurance comes of Age](#)
3. [ANV - Claims Fact Sheet](#)

Contact LIVA if you require further information on Claims or the use of M&A insurance on your transaction.



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