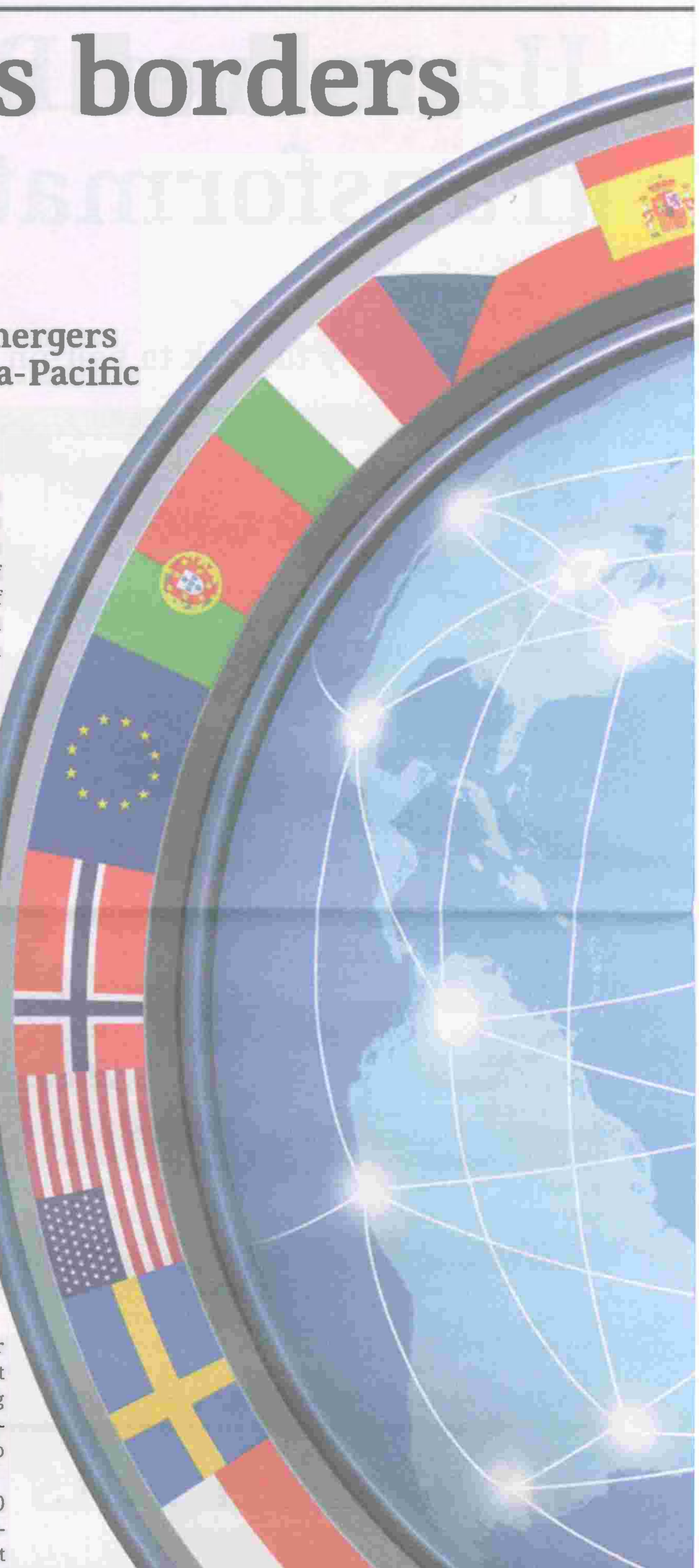
ANALYSIS

M&A insurers cross borders in search of profit

Insurers are beginning to look at the risky cross-border mergers and acquisition insurance market, particularly in the Asia-Pacific region, to gain an edge over the competition



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Global markets editor

Demand for mergers and acquisition (M&A) insurance cover is rising across geographies. While most of the global demand for M&A cover emanates from North America, buyers and sellers in Europe, the Middle East, some parts of Africa and the Asia-Pacific region are expanding their use of M&A insurance.

A lot of opportunistic M&A insurance placements are still facilitated through the London market, but underwriters and brokers see an increasing level of sophistication in other markets. The general expectation within the sector is all relevant M&A insurance markets will see further, substantial growth over the coming years.

Buyers and sellers are increasingly looking for opportunities across borders and are looking for the same protections they might be used to in domestic deals, underwriters say.

M&A insurance is already well established in Europe and much of Asia-Pacific, but is increasingly being sought in the developing economies of Africa and parts of Asia, where larger deals are being conducted with parties that are accustomed to M&A solutions in other regions.

"There are very few deals we see that do not have an international component, whether that is a sales presence in Europe or a manufacturing facility in China. M&A transactions do not see the same boundaries as politicians do," James Swan, head of Americas at Liberty Mutual Global Transaction Solutions, says.

The returns are often higher for insurers in more far-flung jurisdictions, simply because there is a lower capacity or appetite to provide cover in those jurisdictions. But that is also the challenge for the market. "We are covering information quality and accuracy at the end of the day – and in regions or markets where transparency is less forthcoming, this can create issues," Tim Allen, M&A focus group leader and underwriter at Beazley, says.

But there remains a huge growth potential in a number of other markets including "traditional" markets like France and Germany, as well as emerging markets like the Middle East and Africa. For example, northern Europe (including the Nordics and Germany, in particular), as well as central and eastern Europe, have seen huge growth in warranty and indemnity (W&I) insurance in the past three to five years.

One driver is the increase in knowledge of the product among insureds and their advisers, which is partly the result of an increase in cross-border deals. "Other drivers are the increase in auction sale processes, where the seller requires the buyer to purchase W&I in lieu of indemnity protection, and insurers setting up M&A teams of underwriters on the ground in European hubs that can underwrite in local languages," Ben Crabtree, head of M&A at JLT Specialty, says.

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Growing confidence

Historically, transactions in less economically developed countries have been inhibited by concerns about the legal regime, regulation of insurers, the lack of availability of underwriting counsel experienced in the field and the sophistication of buyers, sellers and management teams. But these factors are becoming less relevant, Swan says, as markets develop and buyers, sellers, professional advisers and regulators in these territories increasingly see the benefits of M&A insurance.

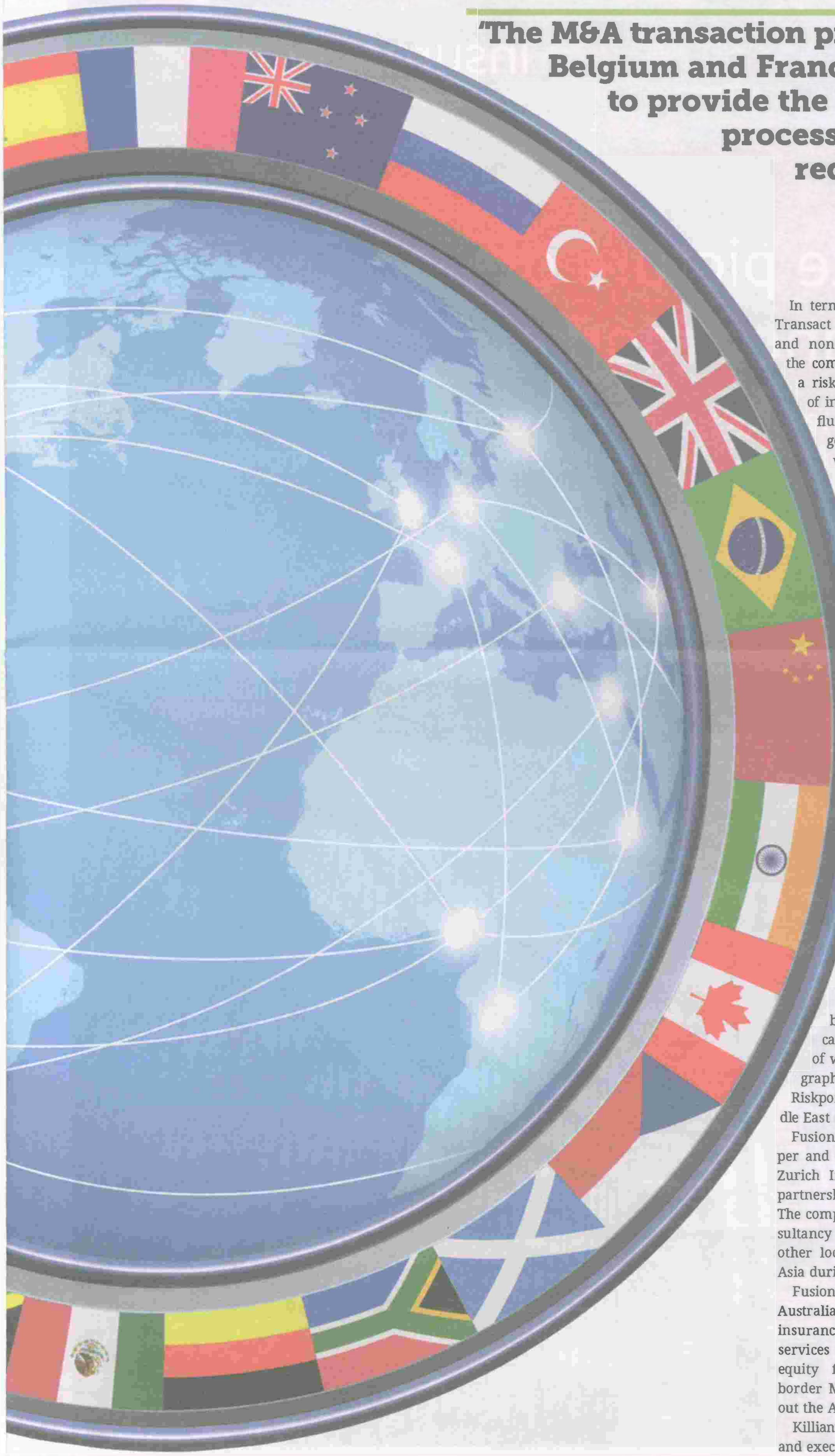
The two main drivers of M&A insurance growth outside developed markets are the confidence lawyers and private equity funds have in the product, and the extent to which there is a broker distribution network active in these emerging jurisdiction, according to Angus Marshall, head of M&A, UK and London market at AIG.

Such factors do not operate in isolation, Marshall says. "Lawyers and private equity funds take significant comfort from the technical ability of the brokers and also, for that matter, of the underwriters, active in their jurisdiction. Also, the fact that claims are being paid, while being the most expensive form of marketing, is the best when it comes to proving the value of the product."

Managing general agents (MGAs) are increasingly present in the cross-border M&A insurance market where their particular combination of agility, local knowledge and specialised underwriting expertise are seen as an advantage.

Transact Risk Partners' geographic focus is determined by the type of transaction insurance required in a particular jurisdiction. In terms of W&I insurance, for example, the company only focuses on deals subject to a governing law within western Europe, in particular, the Benelux countries, France and Germany, according to Sammy Shihab, senior underwriter and principal at Transact Risk Partners.

He says the M&A process is extremely bespoke, varying according to the laws and the deal participants of the particular jurisdiction. "For example, we find the M&A transaction processes in the Netherlands, Belgium and France vary greatly, even though the countries are only a couple of hundred kilometres apart. As a result, we believe to provide the best possible underwriting process, a deep experience of M&A requirements in each specific country is essential," Shihab adds.



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In terms of tax risks insurance, Transact will cover both European and non-European deals. Indeed, the company recently worked on a risk in Asia. "The principles of insurable tax risk are more fluid across jurisdictions, so generally they can be serviced using a central tax underwriting hub approach," Shihab says.

Local knowledge

The MGA value proposition of specialised underwriting resources, knowledge of local markets and a focus on transaction process efficiency has not gone unnoticed by some of the larger, more established, players in the market.

For example, Allianz Global Corporate & Specialty has opted to use only MGAs to write its business in the M&A insurance market, Bernard Poncin, global head of financial lines at the firm, says. The carrier is active in the W&I insurance market globally, but these days provides its capacity to three MGAs, each of which is active in one geographic region: Euclid in the US, Riskpoint in Europe and the Middle East and Fusion in Asia-Pacific.

Fusion also has a long-term paper and capacity partnership with Zurich Insurance and a strategic partnership with Rakuten in Japan. The company also has an M&A consultancy in Mumbai and will add other local operations throughout Asia during this year.

Fusion, which is based in Sydney, Australia, specialises in providing insurance cover and risk mitigation services to corporates and private equity firms engaged in cross-border M&A transactions throughout the Asia-Pacific region.

Killian McDermott, co-founder and executive partner of POP Insurance Holdings, the parent company of Fusion, says Asia is the fastest-developing market in the context of M&A insurance.

However, there is great diversity across the region – which includes Australia and New Zealand as developed markets – with significant transaction activity and demand for M&A insurance cover. "This was initially driven by private equity firms. However, there is now a majority of corporate deals relative to private equity deals. There is also likely to be a significant increase in the number of exits by owners of small to medium-sized enterprises due to reaching retirement age and not having a suitable succession option," McDermott says.

Furthermore, the private equity firms based in Australia and New Zealand have significant presence and funds available to deploy locally and, in many cases, across Asia. "Australia also continues to be an attractive and stable market for inbound investment," he says.

In addition, Asian firms, typically from China and Japan, are very actively pursuing M&A opportunities internationally. "Likewise, there is increasing investment activity from international private equity firms and, for example, European corporates into Asia," McDermott says.

But there are challenges. The rate of growth in the Australian economy is expected to slow, which could reduce the rate of growth of the Australian M&A Insurance market, and regional geopolitical factors could act as a dampener on the rate of growth on the regional M&A insurance market, including the slowdown in the rate of growth in the Chinese economy.

But McDermott is confident the growth of the M&A insurance in Asia will follow the trend seen in developed markets. "Transactions in the past in Asia have been concentrated in more traditional industry sectors such as real estate, services, retail, manufacturing. We expect to see growth in technology, healthcare, pharmaceutical and renewable sector deals, which will supplement continued growth in the more traditional sectors," he says. ■