

Marsh private equity and M&A practice

Italian Transactional Risk Insurance Market Report 2019

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Our Brief

Data and Assumptions

Scope of Work and Data Request

The **scope** of the analysis was to draw a picture of the overall **Transactional Risk Insurance (TRI) market in Italy**.

The **focus is on Warranty & Indemnity (W&I)**, Title, Specific Risk and Environmental M&A policies placed for Italian transactions having Closing in 2019 and an Italian entity as Target Company under the Sale and Purchase Agreement (SPA).

Data requests to Insurers were:

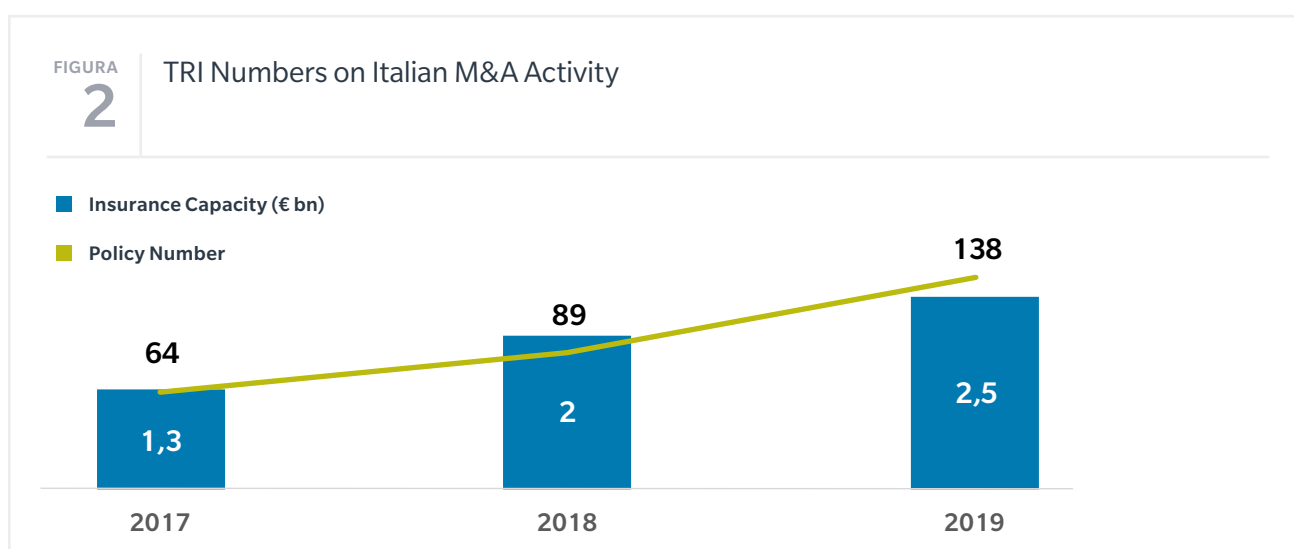
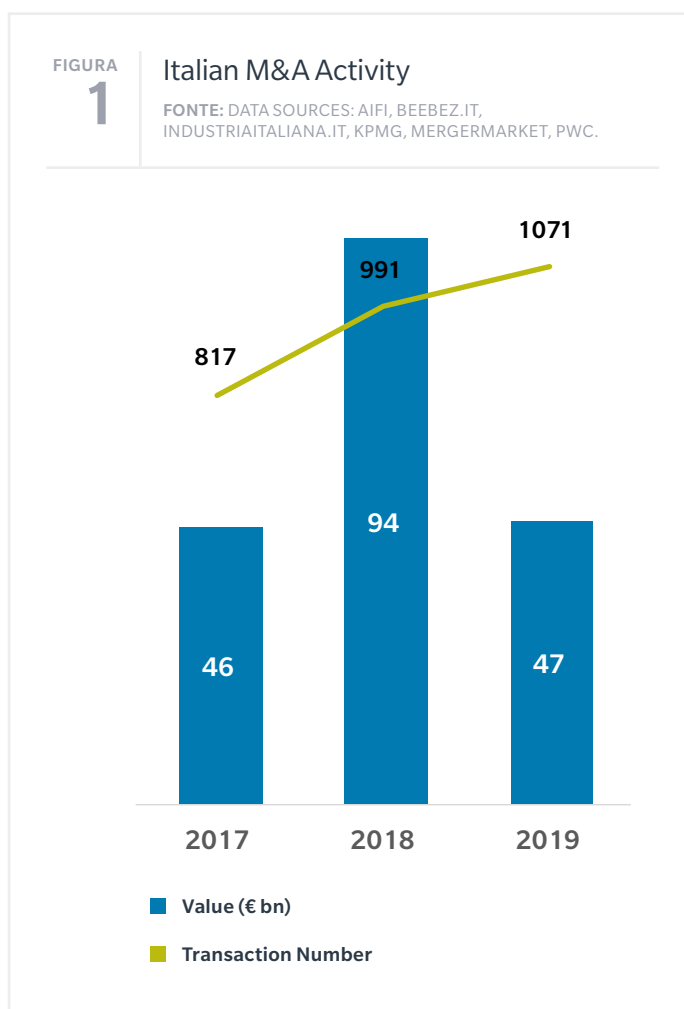
1. Number of Insurance Policies booked.
2. Total Capacity (Limit of Liability).
3. Distinction between Corporate or Private Equity vehicle as Insured.
4. Claims opened and payed in 2019.
5. Reference to the Industry over Total.

Assumptions and Method

- When not provided, average rate has been computed.
- Average Limit was computed as Total Limit divided by the number of Policies (both figures provided by Insurers).
- Average Premium was computed as Total Premium divided by number of Policies.
- Rate was computed as Average Premium divided by Average Limit.
- Percentage of Private Equity (PE), Corporate, and relevant Industry was computed using totals only with reference to W&I.

Italian M&A Landscape vs Transactional Risk Insurance market

- **Italian M&A activity fell by 50% in 2019 by value**, while the number of transactions stayed strong and was up of 8% compared to 2018. Average transaction value plunged for both PE-related and industrial M&A activity.
- **Private Equity players** were involved in almost the half of the transactions completed in 2019 (more that 500 PE-related deals), with Italy representing the 8% of the total European (incl. UK) buyout value, an increase of one percentage point against 2018.
- **Italian private capital operators** sit on EUR 14bn dry powder, however this could be potentially balanced by a tighter credit cycle.
- **Covid-19 consequences** likely to impact on deal making activity in the short term due to target's valuation issues, with several deals already shelved in Q1 due to pandemic implications. However, stock market decline might offer public-to-private opportunities.
- **Defensive sectors** (e.g. infrastructure, renewable energy, core real estate) less likely to be impacted by virus outbreak and expected to be active in 2020.
- **TRI solutions** could see a large implementation in 2020 due to due to the uncertainty solvency of the Parties against investment grade guarantees.



The Italian Market for Transactional Risk

W&I focus

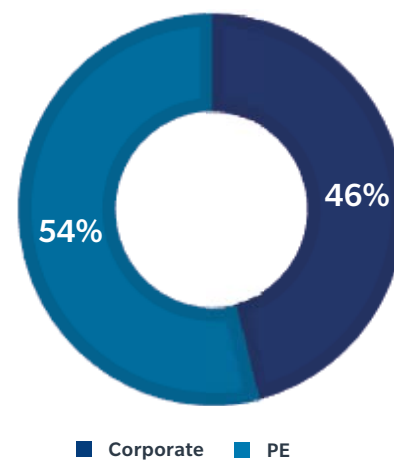
Key Trends

- Increase of the total number of policies compared to 2018.
- Decrease in the number of mega-deals with a consequent reduction of the limit insured.
- Low limits prevail in the energy and real estate industry transactions.
- Feed-in tariff cover still a must have in renewable energy transactions.
- Real estate deals are the main contributors to the general increase in the number of insured transactions.
- Balanced share between Corporate and PE deals with a note-worthy standing up of PE to Corporate.

Italian Market Numbers	2019	Vs. 2018	% of change
Total Policies Underwritten in Italy	105	75	+40%
Total Market Underwritten Limit	€ 1,500,000,000	€ 1,585,000,000	-5%
Total Premium	€ 20,500,000	€ 21,000,000	-2%
Average Limit	€ 15,000,000	€ 18,000,000	-15%
Average Rate	1.38%	1.35%	+2%
Average Premium	€ 190,000	€ 242,000	-20%

Insured's Nature (on Policies number)	2019	Vs. 2018
Private Equity Deals	58	+30%
Corporate Deals	47	+10%

FIGURA
3



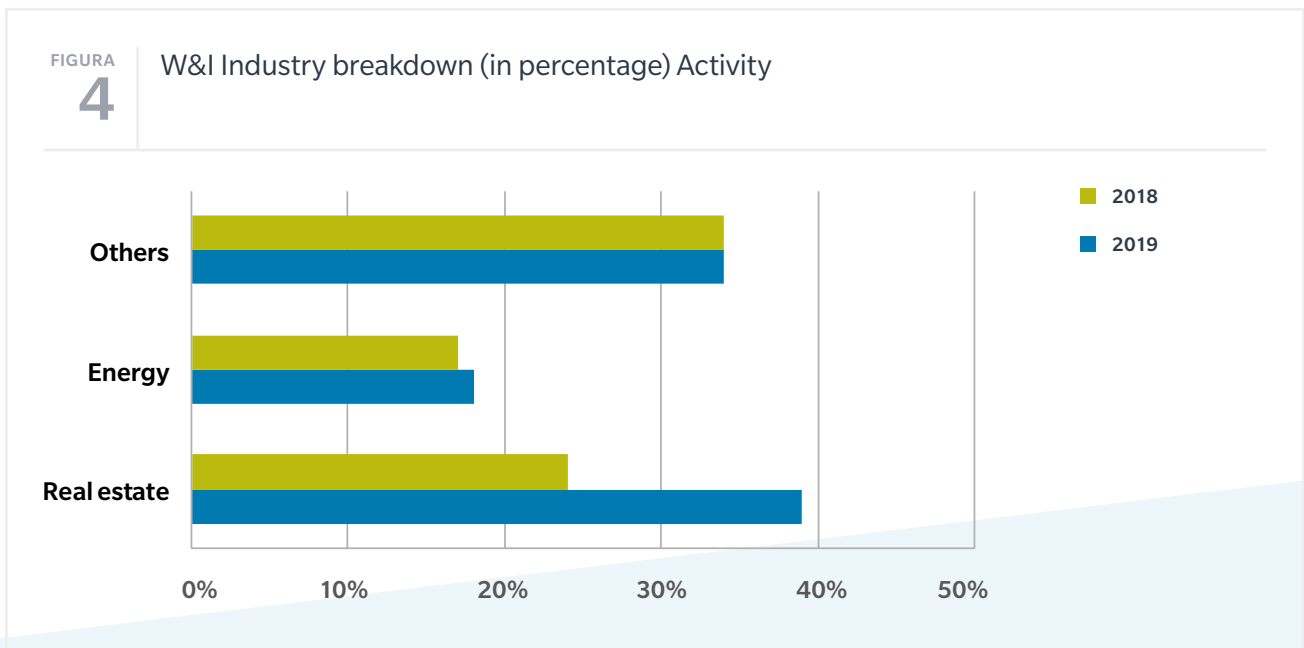
New Frontiers and Italian market Trends

W&I Trends

- Lower limit of liability applied in real estate compared to other industries, but larger deal value due to frequent combination with title and / or known risks insurance policies.
- Stable average attachment points compared to 2018 (real estate 0.1%, renewable energy 0.2%, operational business 0.5%).
- Covid-19 implications have led to greater underwriting focus on employees health & safety matters and supply chain structure (especially on contracts and risk of disruption). We can expect some insurers trying to push Covid-19-specific exclusions in the near future, or trying to exclude reps related drafted to specifically address the issue.
- Timeline tightening for W&I underwriting process with an average of 10 business day underwriting.
- Nil recourse customary in PE-driven transactions, corporate deals often foresee a twofold mechanism where W&I policy and vendor's cap go in parallel.

W&I Claims Trends

- There are several numbers of settled payed claims for a total of approx. € 12,000,000 in 2019.
- The main settled claim of 2019 is equal to approx. € 8,000,000 payed by a sole market on a Financial Statement breach.
- In 2019 only the 30% of claims notification evolved in an effective opened claim.
- Financial Statements and Tax are the matters with most claims registered in 2019.



The Italian Market for Transactional Risk – Title Insurance Providers

Key Trends

- Increasing of the Title Insurance coverage in the Real Estate and Corporate deals.
- Italian governing law customarily adopted.
- Arbitration seat in Italy and under Italian Civil code customarily requested by clients.
- Increased competition between W&I and title providers to top-up fundamental warranties.
- Clients comfort is provided by the availability to include the reps under the SPA in the Title Policy

Italian Market Figures	2019	Vs. 2018	% of change
Total Policies Underwritten in Italy	27	14	+92%
Total Market Underwritten Limit	€1,000,000,000	€ 451,000,000	+124%
Total Premium	€ 3,646,000	€ 1,730,500	+ 110%
Average Limit	€ 40,480,000	€ 32,215,000	+16%
Average Rate	0.30%	0.27%	+11%
Average Premium	€ 130,800	€ 123,607	+ 5%

Title Policies inclusive of Donation over the shares / Real Estate	2019	Vs. 2018
Title	16	+220%

The Italian Market for Contingent Risk Solutions – Focus on Environmental M&A & Tax Insurance policy

Key Trends Environmental & Tax

- Surge of environmental M&A insurance, especially in the real estate sector.
- Inclusion of clean-up costs and extension to asbestos in case of pollution event.
- Negotiations with the insurers to follow SPA wording under the policy at the aim to guarantee a broader coverage in respect of the environmental declarations.
- Significant increase of Tax Indemnity requests by the clients during Real Estate and corporate deals.
- Generally Tax Policies should not be subject to another jurisdiction than the local law of the risk.
- Affirmative tax cover or standalone tax policies offered along standard W&I policy

LBO and Contigent Risk	2019	Vs. 2018
Litigation Buy-Out	2	+200%
Specific Risk	9	+12%

Environmental M&A Focus	2019
Total Policies Underwritten in Italy	3
Average Rate	5%

Tax Indemnity Focus	2019
Total Policies Underwritten in Italy	3
Average Rate	1,2%

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