Tax Liability Insurance

Market & Transactional Risk Update

Despite a slowdown across the global M&A market last year, Tax Liability Insurance proved its worth, with numerous significant transactions relying on its protection. Now well into 2024, optimism prevails, buoyed by reports of a healthy volume of 'dry powder' poised for deployment. To facilitate these transactions, Tax Liability Insurance remains a vital tool. As the demands of the market continue to evolve, buyers can look forward to yet more product innovation.

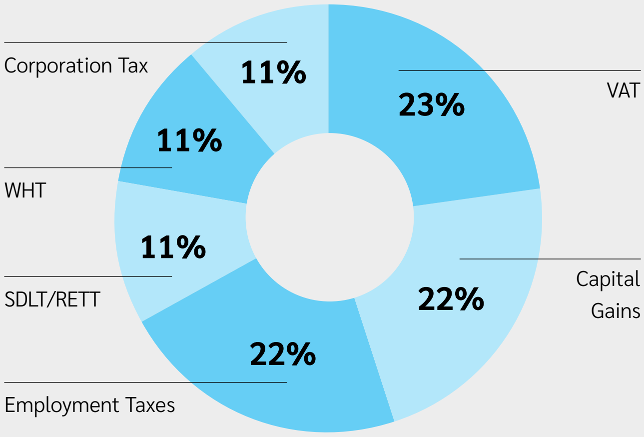
Competition driving premium reductions

The global M&A insurance market has been challenging over the last 12 months, with largely unpredictable peaks and troughs. Transactions in technology and real estate carry particularly significant tax implications, and trends in the types of coverage sought over the year weigh heavily towards these areas. Nevertheless, the number of tax risks seeking insurance was lower than in previous years.

FY 2024 Lockton tax liability transactions

£20m	2.93%
Average Policy Limit	Average Rate on Line

Bound deals - breakdown by tax risk



This, combined with a competitive market due to the rising number of insurers in the space, meant that buyers saw overall reduction in their quoted premiums. Rates in the UK and EU typically fell between 1–5% of policy limits, but were higher in other jurisdictions, owing to the limited number of insurers in operation.

At the same time, a relatively static number of tax claims has meant savings for many insurers, which have in turn have been passed on to buyers. While this is good news, the already low pricing means that buyers are unlikely to see further reductions. Heightened scrutiny from tax authorities is also limiting insurers' room to manoeuvre, and is likely to trigger an increase in claims activity. Ultimately, this will drive pricing higher on future policies.

Territory analysis

UK: HMRC scrutiny across the board for different taxes of all sizes makes it an unpredictable environment for deal makers, furthering the need to consider insurance as a solution. That said, due to a slower deals market, Tax Liability Insurance experienced a slowdown in growth in the UK over the past 12 months, despite the product itself continuing to evolve in terms of scope and versatility.

EU: Recent months have seen a notable surge in the utilisation of Tax Liability Insurance, primarily driven by heightened regulatory scrutiny and evolving tax landscapes. Businesses are increasingly turning to this form of insurance to mitigate risks associated with potential tax audits and resulting liabilities, reflecting a proactive approach to managing financial uncertainties.

Middle East/Africa: Historically, insurers have been reluctant to provide coverage for tax matters across these regions due to limited tax controls and/or rule of law. As the respective tax regimes mature, and authorities become more consistent in their interpretation of the relevant tax laws, this is increasing opportunity for coverage.

Asia-Pacific: Insurers and brokers continue to expand their presence in Asia-Pacific anticipating a busy period for the region. However the last 12 months has seen a drop in deal activity, as widely reported by various news outlets. This has resulted in a very competitive transactional risk insurance market, with Indian tax risks most prevalent.

LOCKTON

Key insurance takeaways

- **The average rate on-line to calculate tax premium pricing is currently at a record low.** This is the result of a softening M&A insurance market, as those in the space compete for the reduced number of deals on offer and comes despite a hardening general insurance market.
- **Businesses are increasingly seeking tax insurance in advance of, or even following a transaction, reorganisation, or refinancing.** As a result, insurance is now available in non-deal scenarios typically to protect balance sheet positions, or as an alternative to applying for tax authority clearances.
- **Employment risks are increasingly covered** on the back of recent high-profile tax cases involving various high street retailers and international businesses being challenged over their workers' arrangements. This is an area that many insurers have covered on transactions, with workforces moving to new ownership. It is also possible to arrange coverage outside of a transaction.
- **Heightened scrutiny by tax authorities** is making Tax Liability Insurance a more attractive solution. Tax authorities are intensifying their efforts by placing a greater emphasis on initiating inquiries and scrutinising tax positions, aiming to bolster tax revenues. This is backed up by ongoing investments in technology. For businesses, this is likely to lead to an ever-increasing number of potential challenges.

Meet our team

Lockton's Transactional Risk tax team has a vast amount of experience as brokers and tax advisors working on transactions across the UK, Europe, APAC, and MENA. We are proud to have such strength and depth in our team.

For more information, including how Tax Liability Insurance works in practice, or how policies are priced, reach out to a member of our team:

Mathew Bond
Head of Tax Liability Insurance

T. +44 161 828 3353
M. +44 (0)778 048 5427
E. mathew.bond@lockton.com

Faz Zaheer
Tax Liability Insurance Broker

T. +44 161 828 3387
M. +44 (0)779 591 7413
E. faz.zaheer@lockton.com