Transactional Risk Insurance

Lockton EMEA Private Equity Update: H1 2024

After 2023’s challenging dealmaking environment, green shoots are starting to emerge with inflation back under control and central banks starting to cut interest rates. Taken with the significant amount of dry powder held by sponsors and GPs coming under increasing pressure from investors to exit, the signs are there for a pick-up in deal activity for private equity. This is borne out by an increase in both enquiry flow and bound policies in H1 2024 compared to H2 2023.

Stable performance despite market conditions

The Lockton private equity team advised on a steady flow of transactions during H1 2024, with an average enterprise value (EV) of £120m. Of those, transactions in the technology, media, and telecoms (TMT) sector accounted for the largest number, followed by industrials/manufacturing and business services.

Lockton-advised EMEA PE transactions: H1 2024

£5bn

Lockton-advised private equity transactions in EMEA in H1 2024

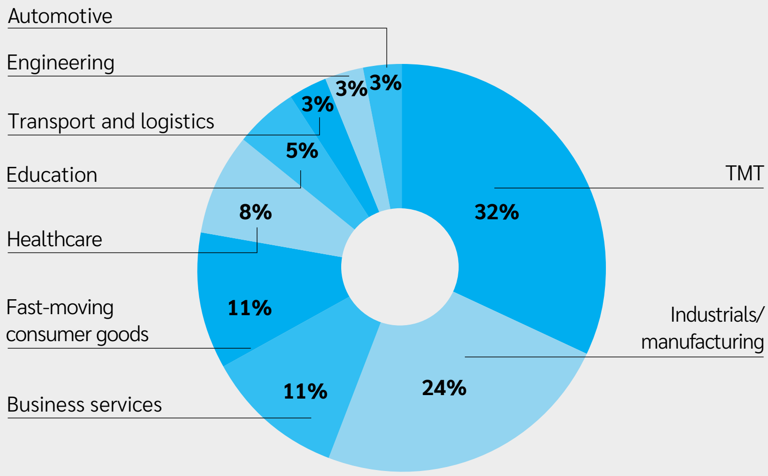
£120m

Average deal size

27%

Average limit insured

Transaction split by sector



Average rate-on-line by sector

Automotive **0.82%**	Business services **0.81%**	Education **0.84%**
Engineering **1.10%**	Fast-moving consumer goods **0.73%**	Healthcare **0.90%**
Industrials/manufacturing **1.04%**	TMT **1.31%**	Transport and logistics **1.22%**

Sector analysis

Healthcare and life sciences: A steady stream of transactions over the last six months has underlined private equity's growing focus on the healthcare and life sciences sector. Insurers have been historically cautious towards the latter, but a notable recent shift in attitude has seen more deals insured and an associated decrease in premiums. Insurers are also demonstrating increased flexibility towards extended coverage of IP warranties – an important development given the IP-heavy nature of the asset class. As ever, understanding the complexity of the risks in healthcare and life sciences is critical to selecting the right insurer and securing comprehensive cover.

Financial and professional services: Continued deal flow, with a number of acquisitions of IFAs, accounting practices and services companies. While the growth of the underwriting market has seen an increasing number of insurers looking favourably at the sector, underwriting continues to focus on professional indemnity matters, regulatory compliance, and client money handling. W&I insurers may be willing to offer cover in excess of a target's PI policy. However, this is dependent on buyers conducting suitable insurance due diligence and being able to demonstrate a clean claims history.

Key insurance takeaways

- **Low-rate environment continues.** Despite a hardening overall insurance market, increased competition in the transactional risks sector coupled with relatively suppressed deal flow saw rates remain at the low levels seen at the end of 2023. Rates for European operational deals were typically between 0.8%–1.2%, with some as low as 0.7% (a historic low). With lower pricing, certain clients have opted to take out higher limits and make increasing use of coverage enhancements.
- **Competition on coverage.** As well as competing on price, insurers are keen to distinguish their offering by providing more extensive coverage and offering policy enhancements for lower, or in some cases no, additional premium. Several insurers are also now offering nil underwriting fees on certain transactions.
- **Tipping to nil retentions increasingly common.** In addition to widening the scope of coverage enhancements, insurers are increasingly willing to offer tipping to nil retentions (typically for a c. 10% uplift in premium). With a tipping retention, the policy will reimburse all losses once the deductible level has been exceeded (including the retention itself).
- **More European insurers are offering US-style reps and warranties policies, even where transaction documents lack US-style disclosure mechanisms.** This follows a notable increase in US-based sponsors and corporates seeking to acquire European assets in H1 2024, backed by the relative strength of the US economy. These "RWI" policies are broader in scope than traditional European W&I policies, with less information deemed disclosed. Although pricing for RWI policies is higher than for typical W&I policies (usually 2.5–3% of the limit), we are seeing a large portion of our US clients now opting to take this more comprehensive cover where available.
- **SME transactions are now a sweet spot for a growing number of W&I insurers.** With growing awareness of, and insistence on, W&I insurance from sellers, increased market competition for sub-£15m deals (including micro deals under £1m EV) has led to unprecedentedly low levels of premium in this space. This has unlocked strategically advantageous risk management options for buyers on smaller transactions, including bolt-on acquisitions by institutional investors. We expect demand and appetite for W&I insurance in the SME market to continue through H2 2024 and beyond, with insurers likely to streamline and simplify the underwriting process in a bid to increase access.

Meet our team

Lockton's Transactional Risks private equity team assists clients on transactions across a range of deal sizes, geographies, and sectors. Working with sponsors and their advisers, we source and place tailored insurance policies to ensure that transactions are executed with precision, mitigating risks for both buyers and sellers. We are well versed in assisting clients structure policies across a range of deal types, whether platform acquisitions, minority investments, bolt-ons or take-privates.

David Elphinstone
Head of Private Equity Transactional Risks
M. +44 (0)7788 913 774
E. david.elphinstone@lockton.com

Emily Chamberlain
Vice President
M. +44 (0)7795 915 483
E. emily.chamberlain@lockton.com

Izabela Gniecieck a
Vice President
M. +44 (0)7586 437 652
E. izabela.gnieciecka@lockton.com

Eric Patel
Assistant Vice President
M. +44 (0)7788 869 857
E. eric.patel@lockton.com