



Asia Pacific Edition

# M&A Insurance: Unpicking material claims in Asia Pacific

Our APAC edition of AIG's M&A Claims Intelligence report sheds further light on the claims within this market, as severity trends upwards.

While AIG's Warranty & Indemnity (W&I) policies as a whole during the study period have an overall claims frequency of one-in-five, frequency within Asia Pacific is closer to one-in-six.<sup>1</sup> The APAC W&I book is generally skewed towards smaller value deals in comparison to other regions, and this is reflected in the claims data. Nevertheless, there continues to be an upward trend in the number of claim notifications being submitted, and is in line with increased market penetration.

The full report can be found here



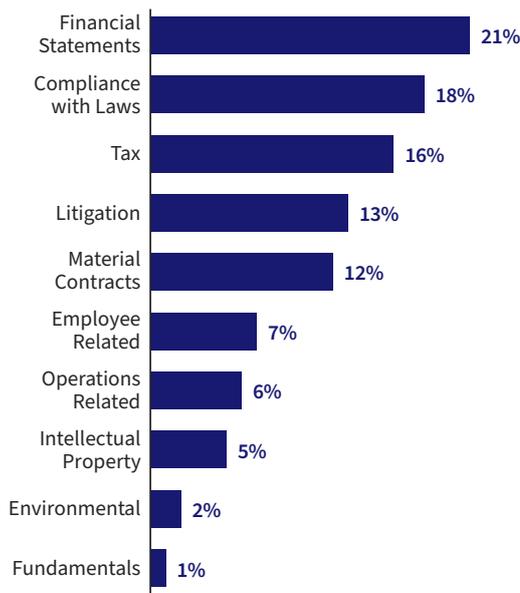
<sup>1</sup> The AIG Report reviewed claims made during the study period spanning policies written between 2011 and 2018 covering approximately 3,500 deals

Amongst other things, this trend reflects growing take-up of the policy as a result of this insurance being more front of mind. “The frequency of claims notifications increases sharply for deals above \$500m,” observes Darren Savage, head of M&A, Asia Pacific at AIG. “Whilst the majority of claims continue to come from Australasia, we are seeing Asia catching up with increasing claim frequency, reflective of the greater use and understanding of the product throughout Asia.”

The long-tail nature of W&I claims is also becoming more evident. “Whilst many notifications will land within the first 24 months, a meaningful number (13%) of claims are notified in the period >24 months, more than other regions,” says Savage.

From a claims severity point of view, over a third of all material claim notifications are large (over \$1m) or very large (over \$10m). This demonstrates that material claim values are occurring with regularity, even in jurisdictions with a higher proportion of smaller insured deal sizes.

Fig A W&I reported incidents by breach type – APAC



Current pricing levels for the W&I insurance product remain soft across much of Asia, a dynamic which is “counterintuitive” to this deteriorating claims severity in the market, according to Savage. With pricing on an upward trajectory in other regions, it is almost inevitable rates will begin to stabilise in APAC in 2021.

Looking at the main breach types, breaches of the financial statement warranties are the overwhelming contributor to large claims, making up just over a fifth of all claims, but accounting for half of all large claims (US\$1m to \$10m), and all of the largest claims (>US\$10m).

But this does not necessarily reflect the full picture, explains Savage. “Compliance with laws, tax and material contracts breaches make up nearly half of notifications in APAC, but account for only 13% of large claims. Conversely, operations-related and employee-related breaches make up just 13% of notifications, but account for 26% of large claims.”

One noticeable outlier for APAC is the greater proportion of claim notifications resulting from breaches of the litigation warranties, responsible for 13% of incidents in the region (nearly double the rest of the world average of 7%). Employee-related claims are also on the rise, with the majority of these claims originating in Australia and New Zealand. Savage puts this down to Australia’s complex industrial relations regime.

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For more information see the full M&A Claims Report [here](#)

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