

Liberty Global Transaction Solutions Group opens door on M&A claims

*Notifications rise 40% year-on-year,
although COVID itself has not caused the spike in claims once predicted*

BOSTON (September 15, 2021) -- Liberty Global Transaction Solutions (GTS), part of Liberty Mutual Insurance, published its 2021 M&A claims briefing today. This is the second annual briefing based on the company's analysis of Liberty GTS's own M&A insurance claims for the past decade.

The report looks at M&A insurance claims by industry, by region and by cause, giving detailed data about the types of deals and from which industry are most likely to lead to a claim, as well as highlighting current trends.

Headline takeaways from the 2021 report include:

- COVID has not led to the predicted surge in "buyer's remorse" claims, but has changed the M&A risk landscape fundamentally.
- Claims are being made more quickly after policy inception. 57% of claim notifications were made in the first twelve months of the policy period in 2020, a significant increase compared to 48% of claims in 2019.
- "Medium" (\$1m to \$10m) severity claims were our fastest growing type of notification in 2020, with the number of claims falling into this category almost doubling compared to 2019. We saw a slight fall in the number of "high" (\$10m plus) severity claims in 2020, but those that we did receive were for higher amounts.

Liberty GTS President Rowan Bamford commented: "Concern that partially completed M&A deals that were finalized during COVID, when business fundamentals changed rapidly, and due diligence was harder to undertake, might lead to increased numbers of claims has not yet materialized. However, the rapidly changing environment did disrupt underwriting norms, fundamentally changing the nature of some previously well-understood risks - travel, hotels and real estate, to name but three. We expect new COVID-related claims trends to emerge in the next few years as a result."

"The increasingly early notification of claims partly reflects the fact that many lawyers are beginning to carry out a post-deal review of the target business as a matter of course with the specific objective of identifying potential breaches for a possible claim. Claims processes for deals are now becoming "institutionalized", and we see the results, although most important for clients is the fact that our statistics show that claims made in the first year are the most likely to be paid."

Causes of claims

The briefing examined the commonest causes for claims and found some interesting trends:

- Tax-related matters are the cause of one-third of pre-claim notifications in Europe and Asia-Pacific, but actual large tax losses remain rare.
- Accounting and financial issues make up 41% of “high” severity claims. Many of these involve stock control, or revenue recognition issues.
- Cyber claims, claims relating to failed IT projects and claims around class-action wage disputes are all increasing in frequency.
- A number of “high” severity claims have involved ‘founder’ sales, and some of these have involved suspected fraud. Overall, the most common type of fraud involves management fabricating revenue to boost the bottom line.

Liberty GTS President Rowan Bamford commented “It has been fascinating to study the industry-by-industry and region-by-region differences in M&A cover and claims. The results give us detail on exactly what really leads to claims in a whole variety of different scenarios.”

“Of particular interest has been our analysis of the growth in cyber and IT-project claims, reflecting the critical importance of digital infrastructure to all types of business today.”

“For clients there is comfort in the fact that notifications about tax matters on policies rarely proceed through into large claims, suggesting that although investigations occur regularly, most key tax issues and liabilities are being successfully picked up during underwriting due diligence.”

“Using this research, our clients can take comfort from the fact that, not only do our underwriters work to understand exactly the risks dealmakers face, but that we share this information back to help our clients know where their due diligence time and energy can most usefully be spent. The ultimate comfort is, of course, the cover, and the knowledge that we paid out over \$45m in claims to our clients in 2020.”

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About Liberty Mutual Insurance

At Liberty Mutual, we believe progress happens when people feel secure. By providing protection for the unexpected and delivering it with care, we help people embrace today and confidently pursue tomorrow.

In business since 1912, and headquartered in Boston, Liberty Mutual Insurance is the sixth largest global property and casualty insurer based on 2020 gross written premium. Liberty Mutual Insurance ranks 71st on the Fortune 100 list of largest corporations in the U.S. based on 2020 revenue. As of December 31, 2020, we had \$43.8 billion in annual consolidated revenue.

Liberty Mutual Insurance employs over 45,000 people in 29 countries and economies around the world. We offer a wide range of insurance products and services, including personal automobile, homeowners, specialty lines, reinsurance, commercial multiple-peril, workers compensation, commercial automobile, general liability, surety, and commercial property.

About Liberty Global Transaction Solutions

Liberty Global Transaction Solutions (GTS) is one of the largest global M&A insurance teams in the industry. With more than 70 specialists, we have helped facilitate over 800 M&A deals a year on average—successfully insuring thousands of transactions since our inception.

GTS offers specialized products and services to help facilitate M&A transactions for buyers and sellers, including Representations & Warranties (R&W)/Warranty & Indemnity (W&I) Insurance, Tax Liability Insurance and One-off policies created for individual contingent risks.

For more information, visit <https://www.libertygts.com/>.

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