MARSH

Transactional Risk Update

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INTRODUCTION

Welcome to the latest edition of Marsh's transactional risk report, reflecting activity during the first half of 2016. This report provides you with an update on the use of insurance capital to solve transaction–related risk issues in the US & Canada, Europe, Middle East, and Africa, and Asia-Pacific. We have also included a global overview.

Despite slow growth in the global economy and increasing geopolitical uncertainty, our strategic and private equity investor clients have steadily sought new investments and growth opportunities through acquisitions. We have noticed that insurance has been used as a competitive tool with increasing frequency this year.

The competitive landscape for quality assets will persist in 2017, driving continued demand for solutions. This will help to drive innovation within the insurance sector as we work to find new solutions for transaction-related risk issues.

We look forward to working with you in 2017. Please contact me or a member of our team to discover how we can help you to meet your strategic objectives.

Karen Beldy Torborg

Global Practice Leader
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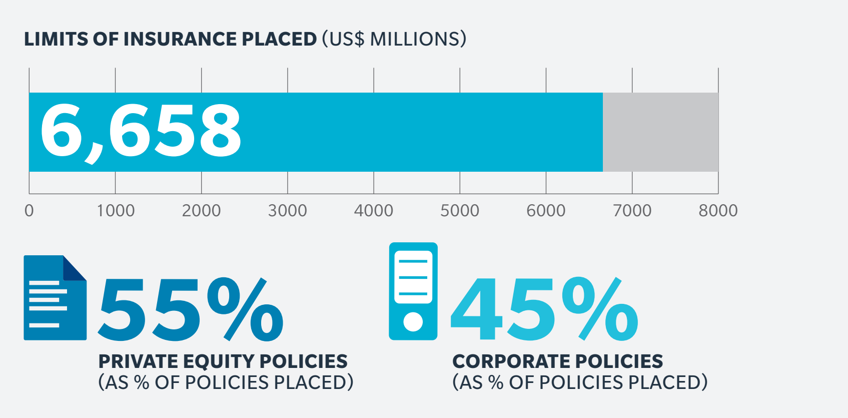
GLOBAL PERSPECTIVE

Demand for transactional risk insurance continued to rise during the first half of 2016, with an overall increase of approximately 65% year-on-year in terms of limits placed by Marsh.

FIGURE 1 **Global Perspective**
Source: Marsh



Europe, the Middle East, and Africa (EMEA) saw the largest rise in terms of limits placed, which increased approximately US$1.7 billion year-on-year. This has been, in part, due to activity associated with US and Asia-based investors exploring acquisitions in European countries, particularly the UK.

Growth also continued in other regions, with the US and Canada seeing an increase in both the number of policies and amount of limits placed. Awareness continues to grow in the Asia and Pacific regions where Marsh also experienced a rise in the use of the solution by both private equity and corporate investors.

We have continued to see a shift in the type of clients purchasing transactional risk insurance. Originally used almost exclusively by private equity firms, the number of corporate clients using this type of insurance has been rising.

The split became more even in the first six months of this year, with private equity policies representing 55% of policies placed, and corporate policies accounting for remaining 45%. In Europe, the Middle East, and Africa, for example, corporate buyers accounted for nearly half of policies placed in the first half of 2016, but only represented 21% during the same period last year. We are increasingly seeing strategic investors from Japan and China use representations and warranties (R&W) insurance when seeing investments opportunities in Europe and the US. We expect this trend will continue.

Transactional risk insurance — including warranty and indemnity (W&I) or representations R&W insurance, tax liability, and other contingent liability solutions — is now more widely available around the world and has become a common risk-mitigation tool for dealmakers.

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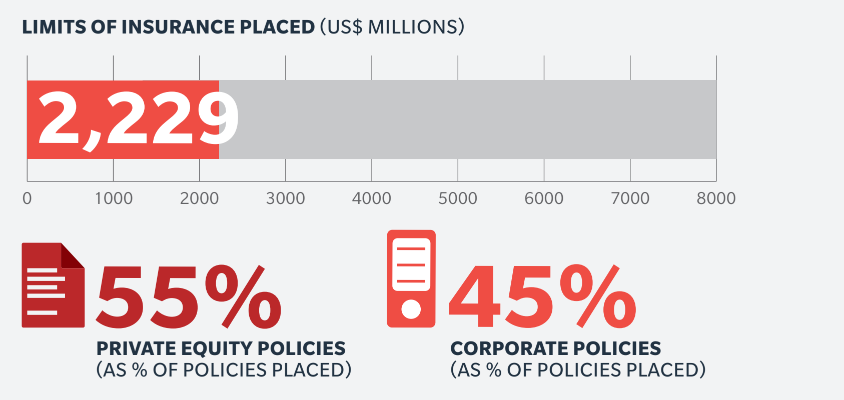
REGIONAL ROUND-UP: US AND CANADA

Recent headwinds in the overall North American M&A marketplace have failed to dampen the appetite for transactional risk insurance policies. At mid-year 2016, we witnessed a significant year-on-year increase in the limits placed, with approximately US$2.23 billion in limits placed on behalf of clients representing more than 100 policies. This compares to US$1.54 billion limits placed during the first half of 2015.

FIGURE 2 **US and Canada**
Source: Marsh



Corporate buyers accounted for an increasing share of the transactional risk insurance purchased, with 45% of policies placed coming from these buyers. In addition, there was a rise in the proportion placed by international investors, particularly across Asia and EMEA. The number of insurers providing these lines of insurance has continued to increase, with at least 15 primary insurers offering coverage. This is up from 11 at the end of 2015, as insurers continue to look for growth in specialty and niche insurance classes.

Premiums and retentions percentages for this market remain stable, at between 3% and 4% of insured amounts, and 1.5% to 2% of enterprise value, respectively.

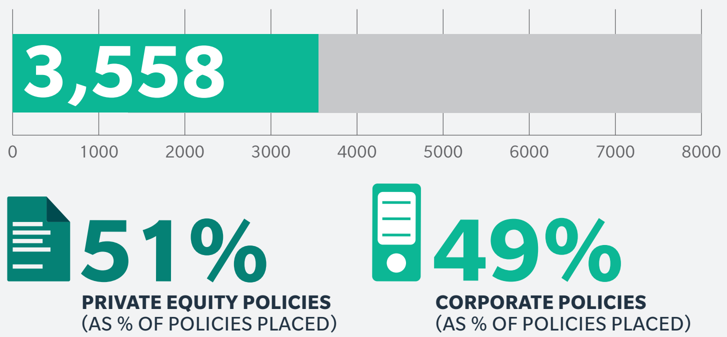
> “The number of insurers providing these lines of insurance has continued to increase, with at least 15 primary insurers offering coverage.”

REGIONAL ROUND-UP: EUROPE, MIDDLE EAST, AND AFRICA (EMEA)

The market for transactional risk insurance continued to expand in the EMEA region during the first half of this year, with a 42% increase in the policies placed versus the same period in the prior year. The amount of limits placed during the first half of 2016 was nearly double that of the first half of 2015, at more than US$3.5 billion.

FIGURE 3 **Europe, Middle East, and Africa**
Source: Marsh

EMEA LIMITS OF INSURANCE PLACED (US$ MILLIONS)



The take-up of contingent liability policies increases markedly, with the number of policies placed in just the first half of 2016 equal to the total number placed during the whole of 2015. Of particular note was the increasing number of policies placed to manage tax risk. While these policies remain in the minority compared to W&I solutions, this suggests both an increase in the appetite of clients to explore solutions for known matters, as well as growing interest from insurers to offer viable solutions.

We also continue to see an expansion of the market into previously less penetrated jurisdictions such as Romania, Israel, and Turkey.

This is as a result of increased education, greater awareness among deal communities, as well as insurers seeking greater yield outside of the more competitive and traditional jurisdictions for transactional risk.

The EMEA insurance market continues to attract capital. There are now 19 potential primary insurers with an aggregate market capacity available in excess of US$1 billion per transaction on a syndicated basis for the right deal. This makes for a continually competitive market in which rates are still declining.

Meanwhile, the vote by the UK to leave the European Union has, thus far, had little impact on interest in

“The vote by the UK to leave the European Union has, thus far, had little impact on interest in transactional risk policies.”

transactional risk policies, as we have seen no significant decline in the number of enquiries or policies purchased for UK deals. We continue to see growth in cross-border activity from Asia and the US into the EMEA region.

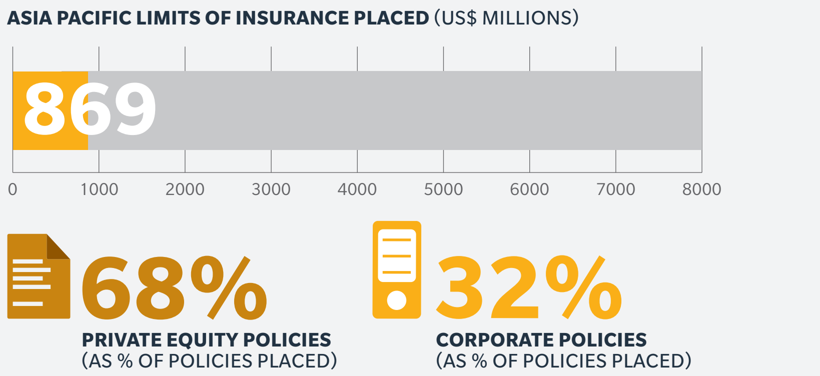
In light of Brexit and other macro headwinds, the mix of target businesses being shown to the market in terms of industry has shifted. For example, there has been less of a supply of real estate assets and targets reliant on discretionary consumer spending (such as retail) and a greater interest in financial technology, healthcare, and renewables. As the vote occurred near the end of the first half of the year, it will be interesting to see if we witness continuing change in the portfolio mix for transactional risk solutions in the coming year and beyond, and how that tracks against general deal trends.

"We continue to see growth in cross-border activity from Asia and the US into the EMEA region."

REGIONAL ROUND-UP: ASIA-PACIFIC

The Asia-Pacific market has continued to see an increase in limits of insurance placed during the first half of 2016. While the limits placed are still a fraction of those in EMEA and the US and Canada, at approximately US$870 million, it remains a fast-growing region, as the awareness of transactional risks and the number of deals taking place in the region continue to pick up pace.

FIGURE 4 Asia-Pacific
Source: Marsh



Premium rates remain competitive for mature jurisdictions such as Singapore and Hong Kong. For emerging markets such as China and India, rates continue to hold due to a lack of insurer appetite. Interest increased from Japanese and Chinese corporate clients due to a rise in outbound deals.

Overall, the insurance market in Australia and New Zealand is highly competitive. Small- to mid-market transactions have accounted for most of the activity in Australia and New Zealand, and premiums rates in these markets continue to fall, driven by new insurer entrants. Policies placed continue to offer among the most insured-friendly coverage outcomes globally.

Retentions of 0.5% of deal value are commonly available, as are retentions which tip to zero. In some cases, policies are available that apply no retention to certain subsets of warranties, such as tax and title.

We saw a significant uptake in private equity policies, which accounted for 68% of policies placed. This is up from 56% in the first half of 2015. Meanwhile, corporate policies accounted for 37% of policies placed.

Retentions were below 1% for most deals in mature markets in Asia, such as Singapore- and Hong Kong-headquartered deals. Deductibles can go as low as 0.5% and tipping retentions are offered.

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We work with clients of all sizes to define, design, and deliver innovative solutions to better quantify and manage risk. To every client interaction we bring an unmatched combination of deep intellectual capital, industry-specific expertise, global experience, and collaboration. We offer risk management, risk consulting, insurance broking, alternative risk financing, and insurance program management services to businesses, government entities, organizations, and individuals around the world.

About Marsh's Private Equity and Mergers & Acquisitions Practice

Our private equity and mergers & acquisitions (PEMA) practice employs Marsh's global platform to provide risk and insurance advisory and transactional services to clients around the world. We have dedicated PEMA teams in every region, and the network infrastructure in place to be able to deliver effective support for clients worldwide.

To ensure our clients receive the most current and complete advice, PEMA professionals work closely with Marsh industry experts. This means we are able to provide cross-border, industry focused teams "on the ground" to reflect the geographic scope of a transaction.

Our M&A services are fully scalable and can be accessed on an as-needed basis to supplement and complement your own in-house capabilities and deal advisory teams.

Notes

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