

# MARSH INSIGHTS: ANNUAL TRANSACTIONAL RISK REPORT 2014

## GLOBAL DEMAND FOR TRANSACTIONAL RISK INSURANCE SURGES IN 2014:

Demand for transactional risk insurance, predominantly warranty and indemnity (W&I) or representations and warranties (R&W), but also tax and contingent liability insurance, surged during 2014. The number of policies Marsh placed in 2014 grew 36% from 2013, while limits purchased increased by 51%. Record demand in mature merger-and-acquisition (M&A) markets such as the US and the Nordics, combined with continued increasing awareness and usage in emerging markets, helped drive historic results.

Emerging markets in particular continue to embrace transactional risk insurance, as investors and sellers look to reduce cross-border deal risk. The solution is now available in Latin America and we saw wider use in Asia. Marsh brokered the first locally issued policies in Malaysia, Mexico, the Philippines, and Saudi Arabia during 2014.

Similar to previous years, financial sponsors such as private equity firms, remained the most frequent users of transactional risk insurance, driven by a desire to execute liability-free exits. Asia-Pacific was the only exception to this trend, where acquisitive corporations were the most active users of transactional risk insurance.

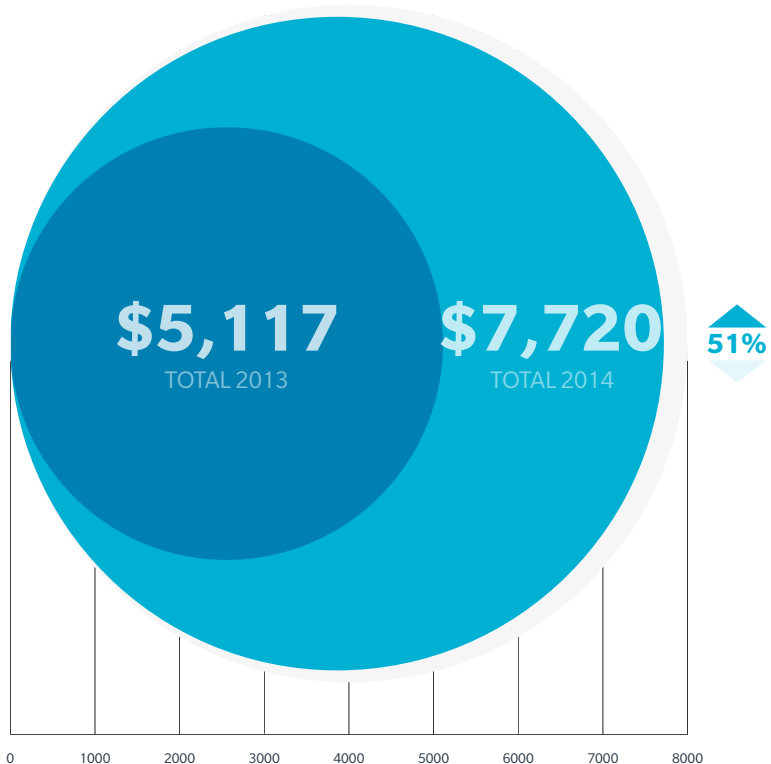
### NUMBER OF TRANSACTIONAL RISK POLICIES PLACED



### PRIVATE EQUITY VS CORPORATE (AS % OF TOTAL POLICIES PLACED)



### LIMITS OF INSURANCE PLACED (US\$ MILLIONS)



## REGIONAL ROUND-UP: UNITED STATES AND CANADA

The US saw a dramatic increase in R&W insurance in 2014, driven by greater acceptance and use by leading law firms, private equity firms, and other deal professionals, especially for deals involving midsize companies. In addition, more insurers are offering transactional risk insurance, and existing providers expanded their policy coverage by often removing exclusions for consequential, special, and multiplied damages as well as damages based on diminution in value -- for additional premium. This expansion of coverage has been critical in narrowing any gap between the R&W policy and underlying purchase agreement. Finally, insurers have streamlined their underwriting process, enabling the placement of a policy within a week of commencing underwriting. As in years past, the market is being driven by private equity sellers seeking a clean exit, and buyers using the insurance to enhance their bids -- trends that we expect to continue in 2015.

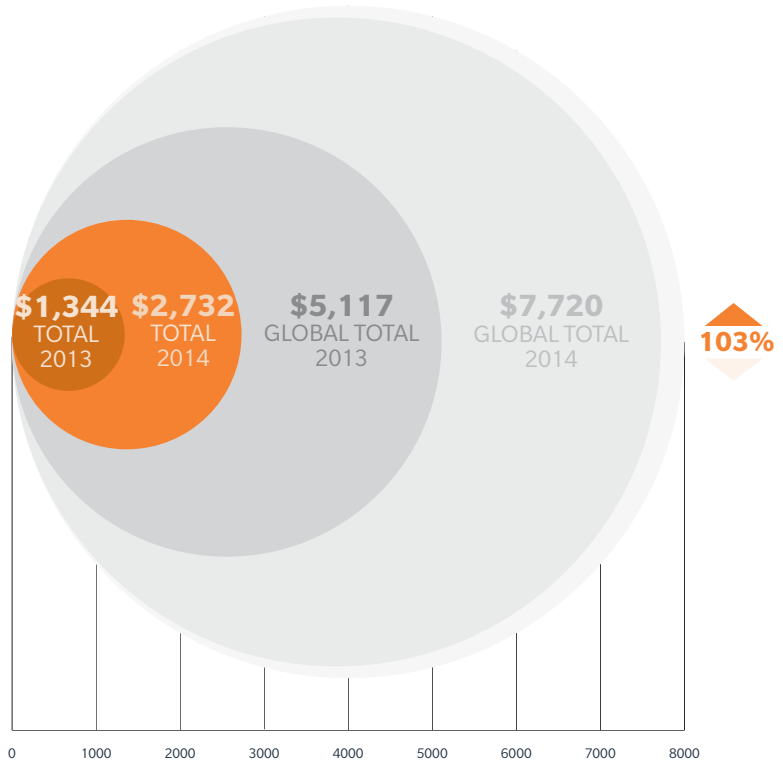
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## REGIONAL ROUND-UP: EMEA

The take-up of transactional risk insurance continued to grow across the Europe, the Middle East, and Africa (EMEA) region, fueled by expanded use in the UK, Germany, and the Nordics, and first-time usage in the Middle East. Private equity funds continued to use transactional risk insurance to facilitate clean exits by limiting the contractual exposure under sale and purchase agreements. In the UK, in particular, the desire to design a “nil seller recourse” structure drove demand in the real estate sector. Activity in the Nordic countries was robust, with an increase of 260% in the number of deals compared to 2013. Growth in all countries in the region was spread across a wide range of industries, including energy, healthcare, infrastructure, IT, real estate, food, and retail. The take-up rates continued to climb in Central and Eastern Europe, with policies placed in Poland, the Balkans, and the Czech Republic, demonstrating growing deal sophistication in emerging European markets. Finally, the first-ever policy in Saudi Arabia was placed during 2014, representing a significant milestone in the Middle East.

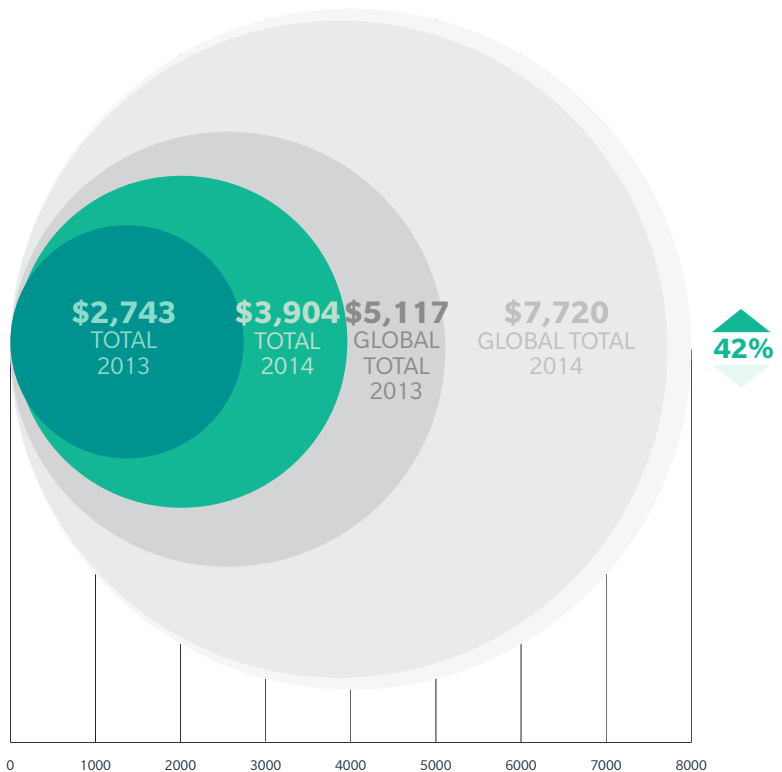
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## REGIONAL ROUND-UP: ASIA-PACIFIC

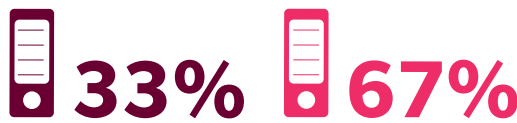
Established W&I markets, such as Hong Kong and Singapore, continued to show strength, driven by a mature M&A industry. New markets also emerged: Marsh placed the first-ever W&I policies in Malaysia and the Philippines. Growth from corporate transactions in Japan increased with four insurers now offering policies locally. Although, Australia continues to grow as insurance buyers use W&I insurance more strategically. For example, some sellers are “stapling” the insurance to the sale agreement for the buyer to assume. Asia-Pacific also saw an increase of truly multinational transactions, with a recent W&I deal involving a Thai client buying a Chinese company from a US seller, subject to US law.

For more information on transactional risk insurance and other solutions from Marsh, visit [marsh.com](http://marsh.com), or contact your local Marsh representative.

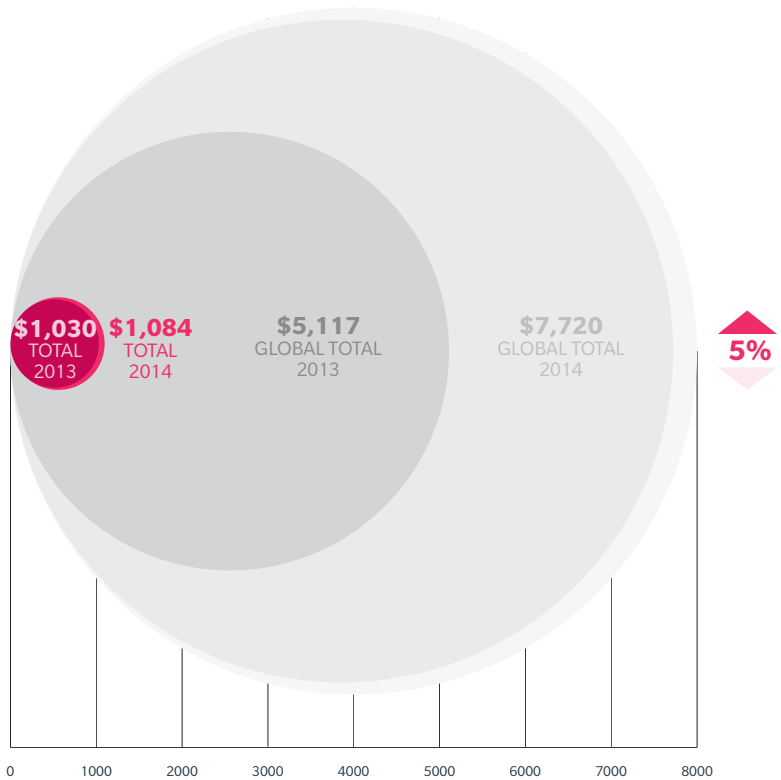
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