MARSH

Annual Transactional Risk Report

2015 YEAR IN REVIEW

GLOBAL PERSPECTIVE

Demand for transactional risk insurance continued to increase during 2015 across all regions as investors looked to reduce deal risk. The Asia-Pacific region in particular accounted for the largest year-over-year increase.

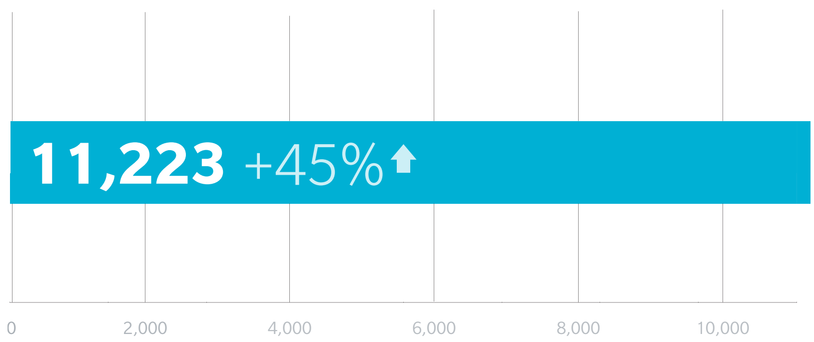
Strategic investors and private equity firms turned to transactional risk insurance to close deals in record numbers during 2015. Globally, Marsh's mergers and acquisition (M&A) professionals placed 450 transactional risk policies during the year, a 32% increase from 2014. Limits placed increased year-over-year by 45% to USD11.2 billion, driven principally by larger deal sizes as well as more insurance limits being purchased per transaction.

The transactional risk insurance market continues to expand, as existing underwriters increase their capacity and new underwriters enter the space. We are also seeing greater awareness of and interest in this deal tool coming from Latin America, driven by cross-border deals into Latin America from the US and UK.

Originally used almost exclusively by private equity firms, we have seen a dramatic uplift of corporate buyers using transactional risk insurance to better compete for assets, especially in auction situations. The split between private equity and corporate buyers continues to even out, moving from 61%/39% in 2014 to 56%/44% in 2015, which is a trend we expect to continue.

Finally, the number of insurers that provide transactional risk policies has grown dramatically, especially over the past year. With historically low rates in property and casualty insurance classes, underwriters are looking for premium growth in specialty lines. There are now in excess of 25 insurers globally that offer transactional risk insurance on a primary or excess basis, a 30% increase in the past year alone.

Limits of Insurance Placed (USD millions)



Private Equity Policies (as % of policies placed)

56%

Corporate Policies (as % of policies placed)

44%

Number of Policies Placed: 450, +32%

Transactional risk insurance includes a class of policies that cover risks related to M&A, including representations and warranties (R&W) insurance or warranty and indemnity (W&I) insurance, tax indemnity insurance, and contingent liability insurance.

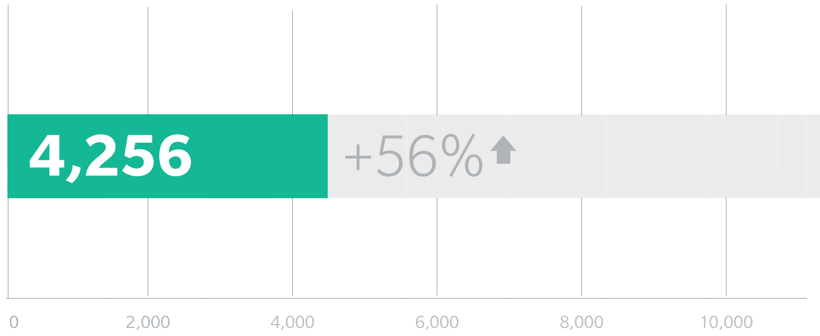
REGIONAL ROUND-UP: US AND CANADA

We saw the use of transactional risk insurance continue to increase in 2015 across North America, with a 56% rise in limits placed, crossing the USD4 billion mark for the first time. The record value of limits was driven by increased utilization of the insurance on USD1 billion-plus transactions, as well as greater participation by corporate buyers.

The utilization of transactional risk insurance in auction processes featured prominently in the middle-market M&A landscape, with sellers often procuring initial quotes for prospective bidders as a way to get deals over the line.

We also saw the number of insurers providing transactional risk insurance grow to 11 during the year, as insurers look for growth in specialty and niche insurance classes. However, despite the increased competition from insurers, pricing for R&W insurance remains stable, with rates generally remaining at 3% to 4% of the limit of liability.

Limits of Insurance Placed (USD millions)



Private Equity Policies
(as % of policies placed)

61%

Corporate Policies
(as % of policies placed)

39%

Number of Policies Placed: **186, +21%**

REGIONAL ROUND-UP:
EUROPE, MIDDLE EAST, AND AFRICA

The take-up of transactional risk policies in 2015 saw increases in the limits and number of policies placed from the prior year across Europe, the Middle East, and Africa (EMEA) region.

In the UK, insurers became more comfortable with "nil seller recourse" structures and are providing competitive terms for these risks for a wider range of transactions. Previously, this was only offered on limited deal types for specific industries.

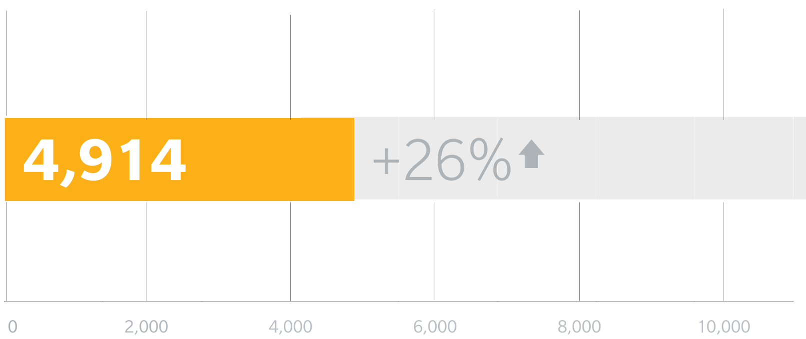
We are also seeing more US-style coverage points being requested within policy wordings – which tend to give broader coverage – on both cross-border and pure European deals, and this is a trend we expect to continue in 2016.

The use of transactional risk insurance continues to broaden in terms of jurisdictions where the targets are based. During 2015, we placed policies for deals in 23 different countries with respect to the target company's HQ domicile.

Similar to other regions, transactional risk insurance is becoming increasingly critical in auction situations. We are seeing insurance procurement as a key part of the process, particularly for financial sponsors who are looking for a clean exit. The process is often initiated by the seller – who provides bidders with the transactional risk report and recommendations – and is then picked up by the buyer at the close of the process.

The number of insurers providing W&I insurance in the UK and Europe has increased, with four new underwriters in 2015, taking the total number to 16. High levels of competition continue to drive better coverage, pricing, and retentions.

Limits of Insurance Placed (USD millions)



Private Equity Policies
(as % of policies placed)

61%

Corporate Policies
(as % of policies placed)

39%

Number of Policies Placed: **170, +15%**

REGIONAL ROUND-UP: ASIA-PACIFIC

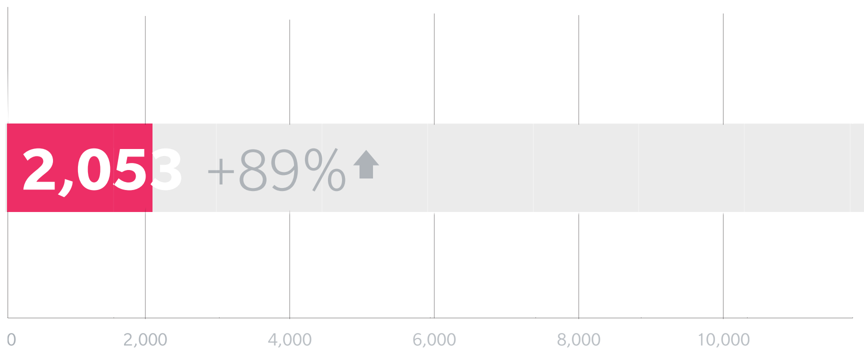
Asian conglomerates are starting to use transactional risk policies as they expand and invest cross-border into western economies.

In Asia, we saw a significant uptake in W&I insurance and limits placed, with larger deals requiring higher limits and a number of private equity firms seeking clean exits from their investments. Deals in Asia were spread across a wide spectrum of industries ranging from traditional assets such as infrastructure and real estate, to popular investment targets like retail and manufacturing, and also newer industries like emerging technology.

In Australia and New Zealand, rates for transactional risk insurance continued to soften to near historic lows, but this has been balanced with increased underwriter focus on coverage outcomes. The local insurance marketplace is flooded with capital, with some insurers willing to commit limits of up to USD100 million on transactions.

Fully tipping retentions are now available on certain transactions in Australia and New Zealand. Beginning last year, certain insurers began to offer fully tipping retentions on select transactions so that, once the policy retention is reached, insureds may recover from the first dollar financial loss for breaches of warranties rather than requiring a certain level of retention.

Limits of Insurance Placed (USD millions)



Private Equity Policies (as % of policies placed)

35%

Corporate Policies (as % of policies placed)

65%

Number of Policies Placed: 94, +141%

Marsh's Private Equity and Mergers and Acquisitions Services Practice develops solutions that help corporations, private equity firms, alternative asset managers, lenders, and infrastructure investors manage M&A risks.