



Paragon M&A Insurance 2016 Global Review

DESPITE THE POLITICAL UNCERTAINTY IN 2016, THE USE OF M&A INSURANCE SOLUTIONS CONTINUED TO GROW, BECOMING EVER MORE IMPORTANT IN CLOSING M&A TRANSACTIONS.

KEY BENEFITS OF M&A INSURANCE

Clean exit

insurance can replace the liability otherwise held by the seller.

Enhanced security

for the buyer as the long term stability of sellers cannot always be guaranteed.

Strategic tool

in an auction process to manage seller liability and/or enhance the profile of the buyer's bid.

Increase quantum and period

for the buyer beyond the limitations available from a seller in a purchase agreement.

Protect ongoing management relationships

when management remain with the acquired business.

Remove need for escrow

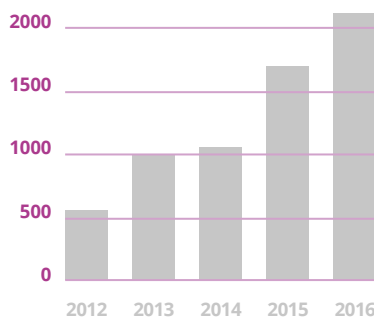
giving the seller access to a greater portion of the deal proceeds.

As many M&A commentators observed, there appeared to be a slowdown in deal volume in the UK due to the Brexit vote. Despite this, of those deals that did successfully complete, more of them utilised M&A insurance products than ever before. In North America and mainland Europe, M&A remained largely unaffected and continued to grow.

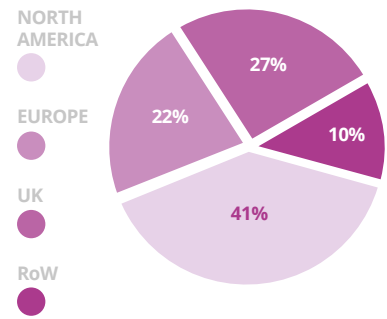
Paragon has once again carried out a market-wide exercise to collect data on how M&A insurance solutions have been used on deals globally in 2016.

2016 FACTS & STATS

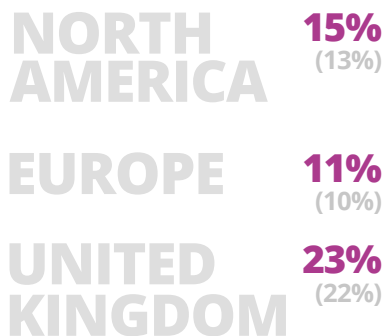
GLOBAL GROWTH OF M&A INSURANCE: NUMBER OF POLICIES



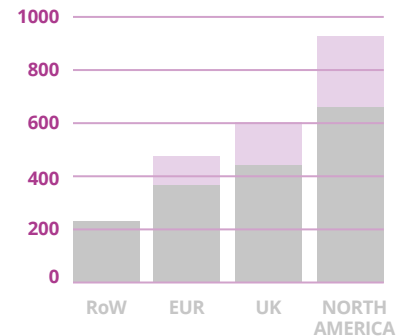
GLOBAL DISTRIBUTION OF M&A INSURANCE (2,200+)



% OF DEALS WHICH USED M&A INSURANCE IN 2016 (2015)



REGIONAL GROWTH OF M&A INSURANCE: POLICIES 2015 v 2016



REGIONAL PREMIUM PRICING (RATE AS A % OF POLICY LIMIT)

NORTH AMERICA	EUROPE	UNITED KINGDOM
2.8% - 3.3%	1.0% - 1.5%	0.9% - 1.3%

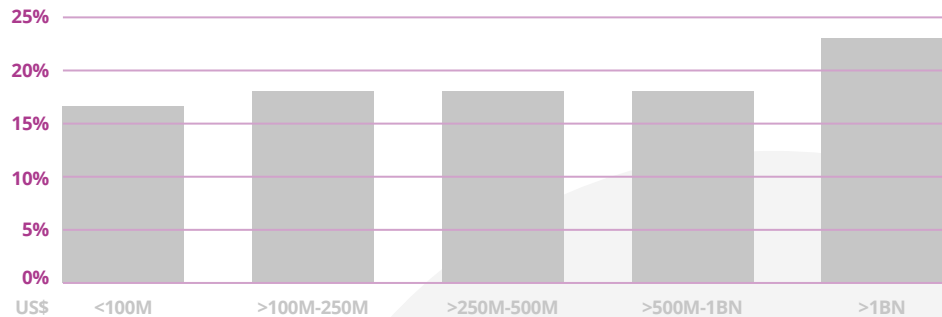
CLAIMS

Breach of financial statements' warranties still remain the most common area where claims arise followed by compliance with laws and material contracts' warranties.

Meanwhile, deals with cross-border dynamics are attracting more claims resulting in higher severity payouts for insurers.

FREQUENCY OF CLAIMS BY DEAL SIZE

(Source: AIG)



2016 KEY TRENDS

- M&A insurance being used increasingly by corporates as well as financial sponsors.
- Affirmative coverage for certain tax risks, particularly on real estate deals.
- Increased US investment into UK and Europe, leading to hybrid or "US-style" coverage policies on UK and European transactions.
- "Tipping" and "drop down" retentions becoming more prevalent.
- Nil recourse structures becoming more common.

OUTLOOK FOR 2017

We have seen a strong start in the first half of 2017, and expect the following trends to continue:

- **Lower premiums and retentions** driven by further market competition.
- **More focus on coverage**, service standards and execution.
- **More Tax Liability Insurance policies** driven by greater focus on contingent issues arising out of M&A transactions.
- **M&A claims teams brought in-house** at key insurers to deal with claims and notifications.

ABOUT PARAGON

Paragon is an independent, global insurance broker based in London and Bermuda. With market leading capabilities and experience in the financial and professional lines sectors, Paragon will partner with you to deliver risk transfer solutions, claims advocacy and risk management services with a bespoke, personalised approach that is unique in the industry.

Contact Us

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