



Mergers & Acquisitions

Transactional Insurance: Winning Deals and Eliminating Liabilities



Transactional Insurance Products

- Facilitate mergers, acquisitions, divestitures and other business transactions
- Provide access to the insurance industry's capital and allow the transfer of certain transaction-related risks to the insurance markets
- Transactional Insurance Products include:
 - Representations & Warranties Insurance (R&W)
 - Tax Liability Insurance
 - Contingent Liability Insurance

AIG M&A Insurance – Globally



- Largest, longest established and most experienced team in the global transactional insurance market
- Provide bespoke insurance solutions for transactions: Reps and Warranties, Tax Liability and Contingent Liability
- Our global team of 22 underwriters consists of bankers, tax specialists, corporate lawyers and litigators drawn from private practice and is based in Australia, France, Germany, Spain, Sweden, Hong Kong the UK, USA and Canada
- We have global capacity with AIG offices in most jurisdictions
- We have placed insurance on 1500+ transactions in well over 30 different jurisdictions





Representations and Warranties Insurance



Representations and Warranties Insurance

Protects a party from financial losses resulting from inaccuracies in the representations and warranties made about the target company or business in connection with transactions, including mergers, acquisitions and divestitures

Maturing Market; Rapid Growth Rate

- Introduced to U.S. Market in 1998
- Over 1500 R&W policies issued to date by AIG, insuring over \$15 billion
- AIG closed over 415 R&W transactions globally during 2014

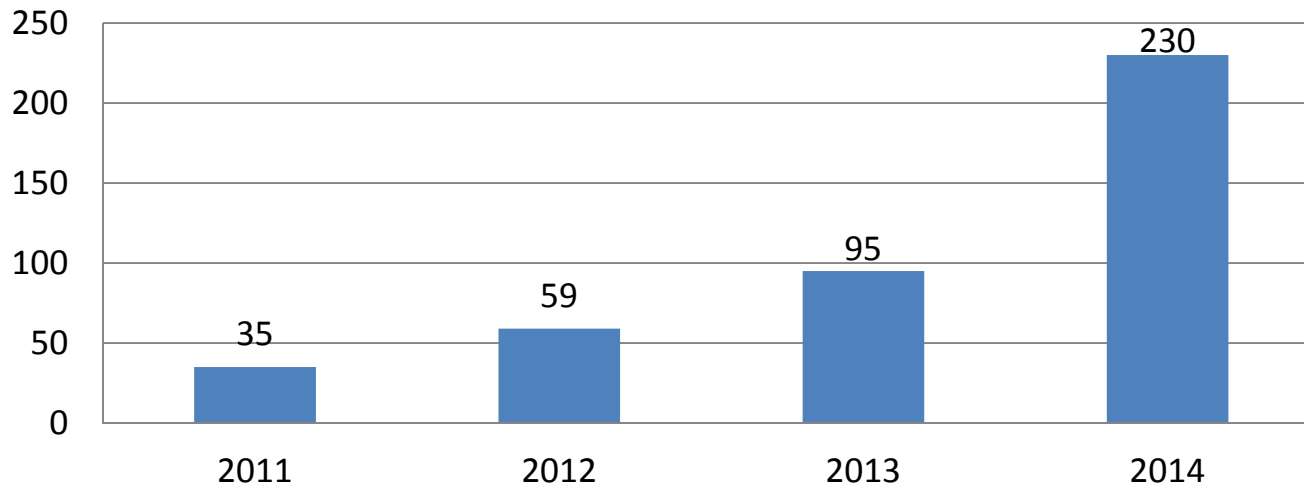
Current State of the Market

- Very seller-friendly M&A market
- Past economic downturns resulted in more risk averse buyers and sellers
- Broad coverage and favorable terms
- Rapid response time and efficient underwriting process
- Greater awareness, understanding, and recognition of product from the M&A community
- Proven claims paying ability

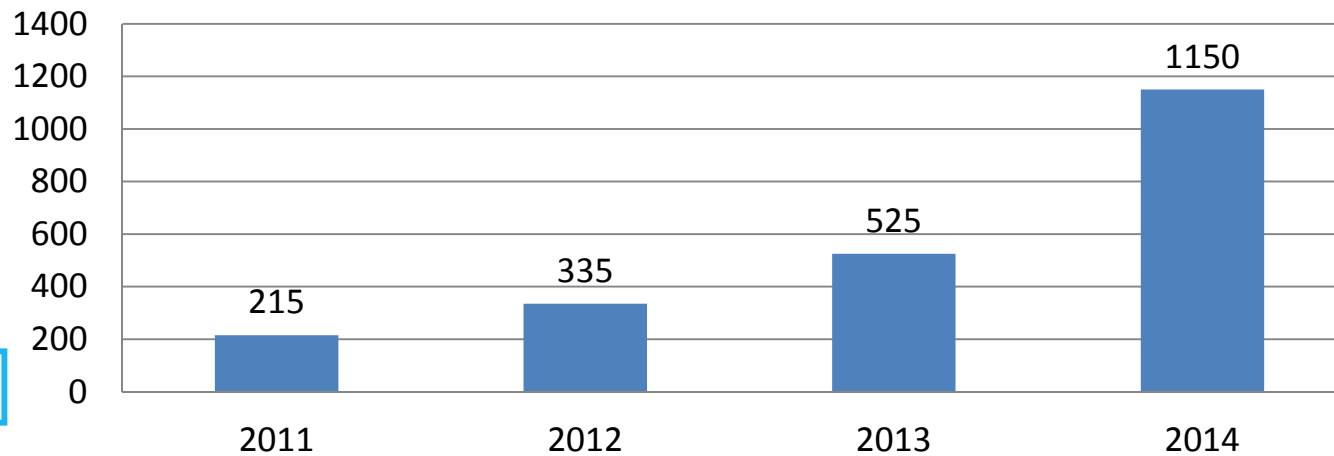


AIG Americas R&W Submission/Policy Growth

Number of Policies Bound



Number of Submissions





Representations and Warranties Insurance

Why Buyers Request Coverage:	Why Sellers Request Coverage:
Enhance Amount/Duration of Indemnity	Distribute Sale Proceeds
Distinguish Bid in Auction*	Increase Purchase Price
Ameliorate Collection Concerns*	Supplement Disclosure Process
Protect Key Relationships*	Protect Passive Sellers
Protect the Deal	Expedite Sale
Insure Certainty of Purchase Price	Reduce Contingent Liabilities
Address Stakeholder Concerns*	Address Stakeholder Concerns



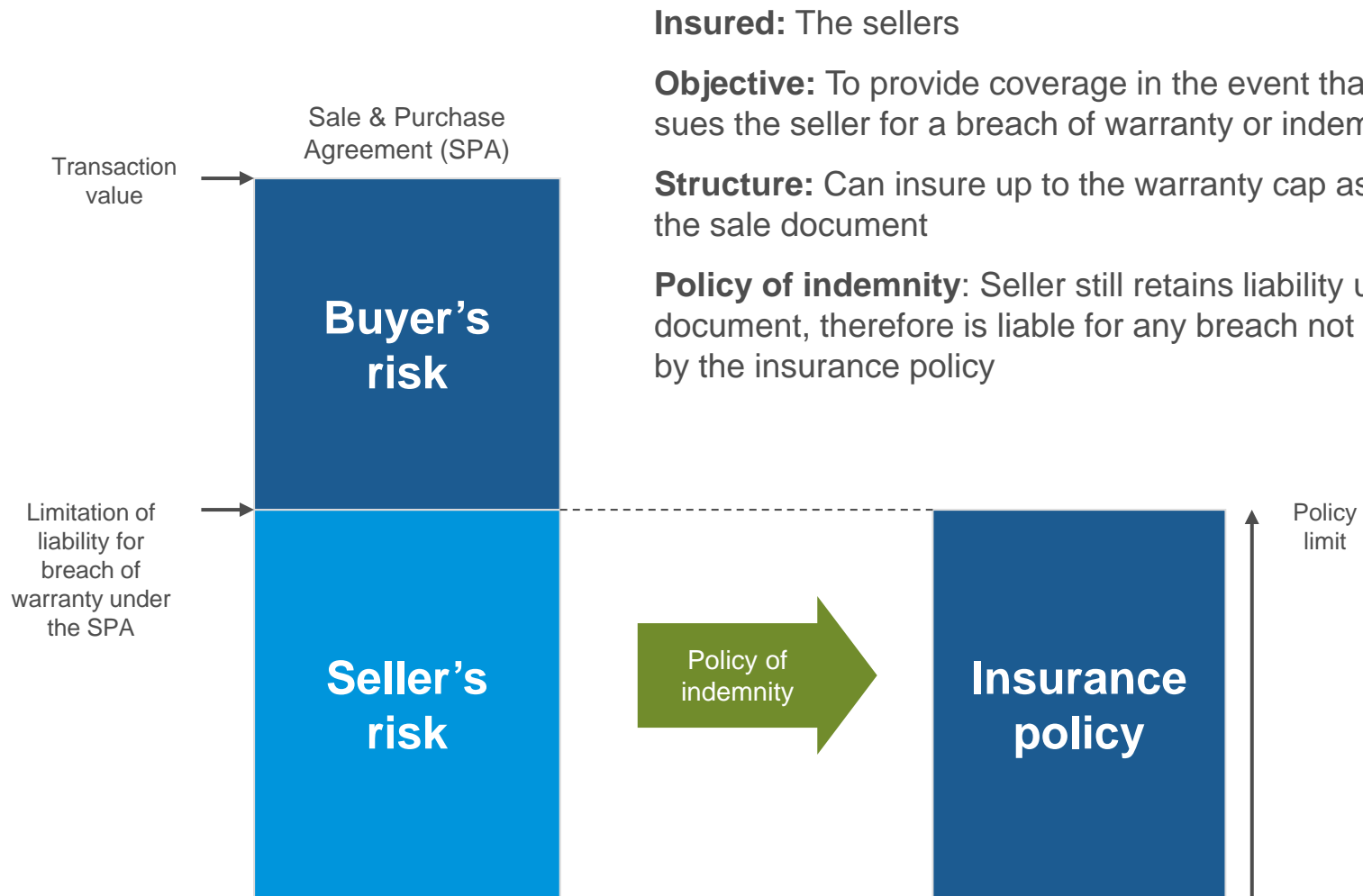
Representations and Warranties Insurance

Coverage Highlights:

- **Two Types of Policies:**
 - Buyer-Side Policy
 - Seller-Side Policy
- **Amount of Coverage:** Up to \$50 million for any one transaction; Larger programs can be structured with additional insurers
- **Price of Coverage:** Generally 2% to 5% of the limit of liability
- **Retention:** Generally 1% to 3% of the transaction value
- **Policy Period:**
 - Typically matches survival in underlying agreement
 - Can be extended beyond survival in underlying agreement
- **Coverage Candidates:** \$50 million to \$3 billion in purchase price



Sell-Side Policy



Insured: The sellers

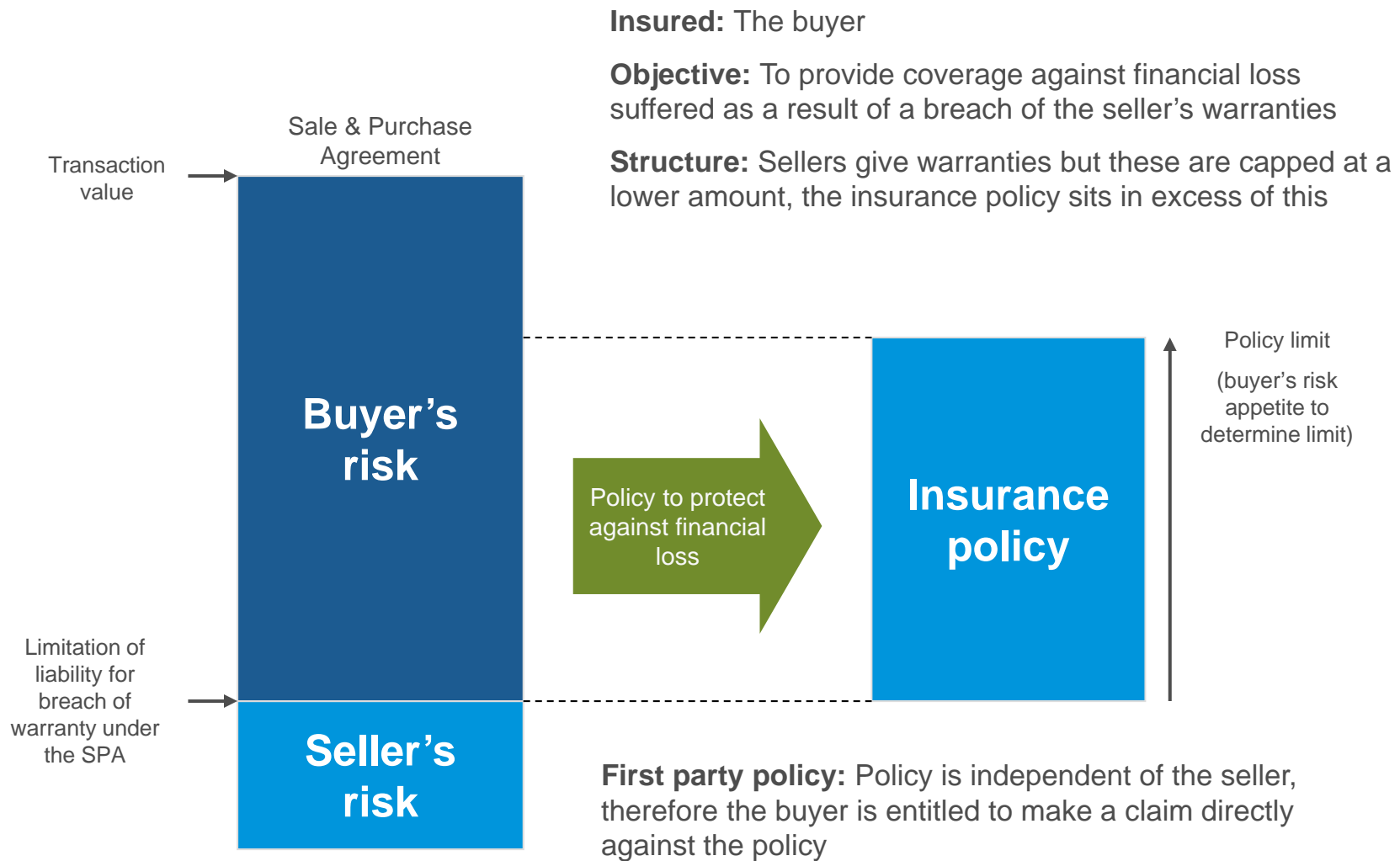
Objective: To provide coverage in the event that the buyer sues the seller for a breach of warranty or indemnity

Structure: Can insure up to the warranty cap as defined by the sale document

Policy of indemnity: Seller still retains liability under sale document, therefore is liable for any breach not picked up by the insurance policy



Buy-Side Policy





Streamlined Process

Depending on stage of transaction, policy can be underwritten in as little as 5 days from start to finish.

1. Execute NDA
2. Provide Submission to Insurer
 - Requested information includes acquisition agreement, financial information, offering memo
3. Obtain quote within 2-5 days
 - No cost to obtain quote
4. Pay underwriting fee
 - Typically between \$25,000 and \$50,000 – satisfies AIG's outside counsel fees
5. Underwriting process: 5-10 days
 - High level review of due diligence process (if buyer-side) or disclosure process (if seller-side)
 - Access to legal, financial, tax DD reports (if buyer-side)
 - Conference call(s) with deal team
6. Policy negotiations
 - Concurrent with underwriting process
 - Work closely with outside counsel





Underwriting Considerations

- Identity of the buyer, seller and their advisors.
- Sector of target business and location.
- Quality of the transaction process.
- Quality of due diligence/disclosures.
- Value of transaction.
- Scope of the insured warranties - buyer or seller friendly?
- Seller's liability under the SPA.
- Gap between signing and completion?
- Why do they want insurance?
- Do both parties know about insurance?



Claims Management

Claims Experience

- Claims notices have been received on 28% of the policies issued in North America since 1998
- Over \$100m in claims paid worldwide in 2014

Industry Reputation for Technical Excellence

- Seasoned claims professionals that are well qualified to handle transactional insurance products such as R&W insurance

Efficient Claims Service

- Dedicated claims professionals work closely with the R&W underwriters to ensure that claims handling is consistent with the underwriting intent and to facilitate prompt responsiveness to our clients

Unparalleled Capabilities and Resources

- Long-established relationships with premier legal firms and experts to offer best-in-class resources around the country





Tax Liability Insurance

Tax Liability Insurance

Enables the insured to reduce or eliminate a contingent tax exposure arising from tax treatment of a transaction, investment or other tax position where the underlying legal conclusions may be subject to future challenge by tax authorities

Provides Coverage for a Variety of Tax Exposures

- Federal, provincial, state, local or foreign taxes (policy period tracks applicable statutes of limitations)
- Expenses of legal/financial advisors incurred in resolving disputes with the IRS and/or other taxing authorities
- Gross-up of taxes payable with respect to insurance proceeds in the event of a loss and insurance recovery
- Interest and non-criminal fines or penalties related to determined tax liability



Tax Liability Insurance

Examples of Covered Exposures:

- Protection of tax-free status of corporate spin-offs, split-ups or split offs
- Tax consequences resulting from a change in ownership
- Tax consequences resulting from the characterization of assets as real property
- Certain tax issues related to the determination of the allowable net operating losses in a “change of control” context
- Certain tax issues arising from golden parachute payments

Tax Liability Insurance

Tax Liability Insurance is NOT AVAILABLE for the following scenarios:

- Pre-packaged off-the-shelf investment products
- Repetitive transactions for the same taxpayer
- Transactions with no independent economic business purpose (e.g., listed transactions, tax shelters)
- Transactions under audit or in litigation
- Requests to insure changes in current or future tax legislation

Amount and price of coverage vary with the type of exposure and insurance structure





Concluding Thoughts

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AIG's M&A Insurance Group is a resource for dealmakers to facilitate transactions

Transactional Insurance Products may be helpful at any stage of the transaction

AIG's M&A Insurance Group is a sophisticated group that will

- Understand your transaction and your issue(s)
- Provide insurance solutions that offer satisfactory risk transfer at a reasonable cost
- Respond in an expeditious manner
- Add value to your transaction team, by offering ideas and solutions throughout the transaction process



Mergers & Acquisitions Insurance Group

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