



Gallagher

TRANSACTIONAL RISK

2025 Review and 2026 Outlook

Private Equity and M&A



Introduction

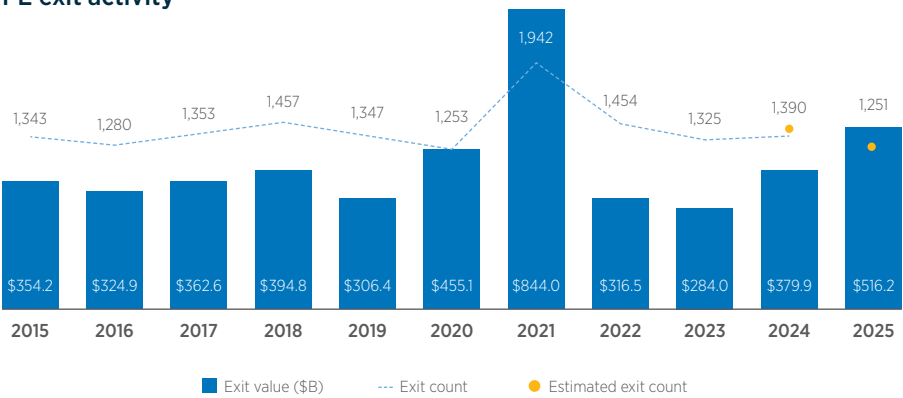
Gallagher’s Private Equity and M&A team advises middle-market sponsors and corporations across North America, using insurance capital to enhance deal certainty, facilitate execution, manage portfolio risk and accelerate returns. Our 2025 experience confirms that transactional risk solutions, particularly representations & warranties (R&W) insurance, tax insurance and tax credit insurance, have become core instruments of deal engineering, not just risk transfer.

In the United States, while overall deal value rebounded sharply, reaching above historic levels on the back of megadeals, middle-market transaction volume declined relative to 2024.¹ Persistent inflation, shifting tariff policy and reduced federal spending (notably on healthcare and renewable energy) tempered optimism that had accompanied expectations of stable interest rates under the new US administration. Yet in this environment, insurance capacity, secondary market innovation and creative dealmaking allowed investors to maintain liquidity and protect downside risk.

M&A Activity and Sector Dynamics

Liquidity remained a constant theme in 2025, constrained as limited partners pressed general partners for realized distributions, and traditional exits lagged. According to PitchBook’s Q3 2025 US PE Breakdown, exit count in 2025 is estimated to fall below historic averages, and setting aside a strong handful of mega exits, values will be below 2024 levels. GP-led continuation funds, NAV loans and secondary transactions emerged as critical release valves for sponsor liquidity, a theme echoed across Gallagher’s own client base.

PE exit activity



Source: PitchBook • Geography: US • As of September 30, 2025

¹The 2025 M&A Report





By sector, technology continued to dominate deal flow as corporates and sponsors raced to acquire AI-driven capabilities and infrastructure. Data center development and digital infrastructure services attracted record investment. Industrial and business services also remained active, driven by reshoring trends. Conversely, sponsors remained cautious toward healthcare services exposed to reimbursement and regulatory uncertainty.

Looking ahead, we believe that interest rate stability and pressure to sell mounting US PE inventory will help to narrow valuation gaps between buyers and sellers, catalyzing a moderate rebound in platform M&A.²

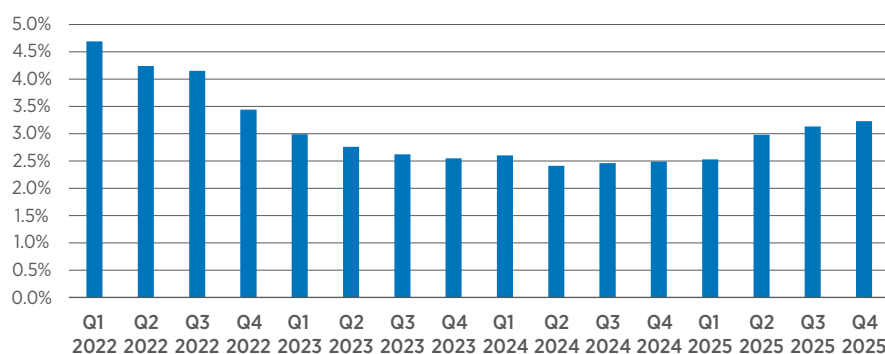
R&W Insurance Market Review

Despite a lackluster M&A environment, Gallagher saw a record number of R&W submissions across North America, with total R&W submissions up by 5% YoY. The product is now ubiquitous across middle-market and upper-middle-market private M&A. Gallagher processed submissions with deal sizes ranging from \$10 million to \$14 billion.

According to our latest insurer survey, the balance between PE and corporate R&W buyers varied (typically 65% PE and 35% corporate), with all insurers reporting a higher proportion of PE buyers. Insurers noted an increase in corporate R&W buyers compared to previous years, which is reflective of more corporates using R&W insurance.

Despite multiple new entrants over the past 24 months, the broader market entered a phase of measured firming. Average quoted primary R&W rates increased from 2.5% in Q4 2024 to 3.23% in Q4 2025, and the consensus among underwriters is that further increases are required for long-term sustainability.

Quarterly Average Quoted Rate as a Percentage of Limit

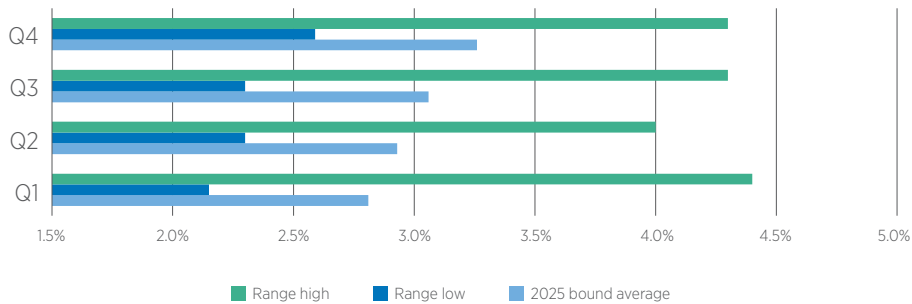


Source: Gallagher Transactional Risk data, gathered from all R&W quotes received in relation to client submissions

²According to PitchBook, as of Q3 2025, the US PE inventory has grown to over 12,899 companies with a median hold time of six years for exited investments (above a pre-pandemic hold time of 5.2 years). Meanwhile, the median hold time for existing investments has crept to 3.8 years (up from 3.1 in 2023).

Primary RWI quote spreads reached their peak in 2024, with certain carriers driving rates beyond 4%. This started to close during the year, with a shrinking number of markets still quoting below the 3% mark.

2025 Quote Range and Bound Average



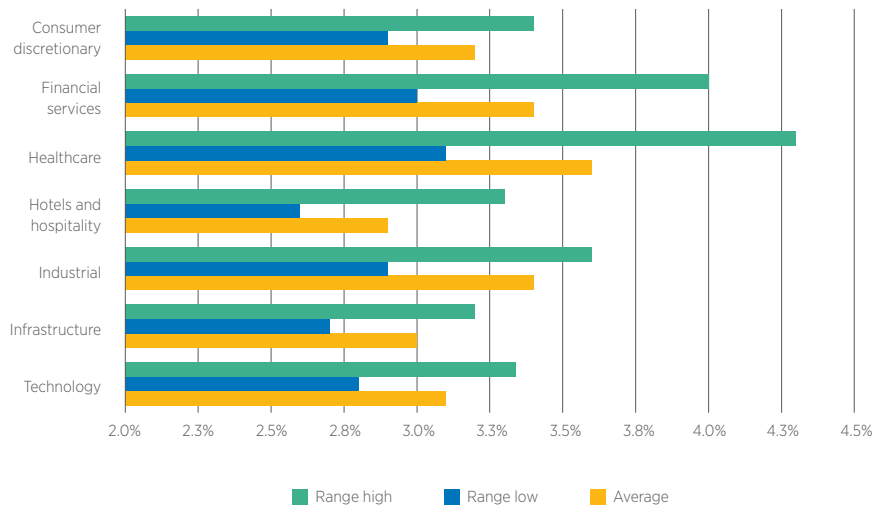
Source: Gallagher Transactional Risk data, gathered from all R&W quotes and bound policies, year to date

Rate variation remained notable across industries. Although average rates trended upward, the upper range remained steady. Regulated sectors continued to attract the highest rates.

Rates for healthcare averaged 3.5% but remain vulnerable to market appetite; financial services saw rates in the mid-to-high 3% range, and technology rates remained in the low 3% range. Industrials and business services averaged 3.4%, with both sectors seeing high competition among insurers. Consumer discretionary rates shifted to the low-to-mid 3% range, and operational real estate remained in the high 2% range.

On average, retentions held at 0.5% of EV, dropping to 0.4% after 12 months, with nil retention for true fundamentals still common.

Primary Quoted Rate by Sector



Source: Gallagher Transactional Risk data, based on all R&W quotes received in relation to client submissions, year to date





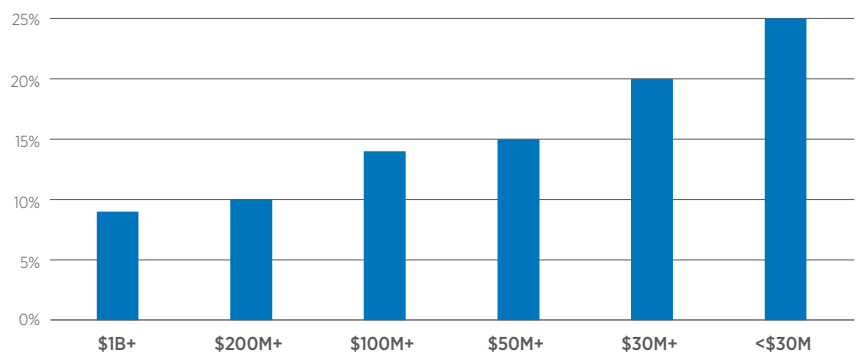
Average limits remain almost unchanged, with most buyers insuring 10% of deal value. For deals below \$100 million EV, we saw an average of 10% to 15% of deal value insured, with some buyers opting for 20%.

We saw a marked increase in buyers purchasing the top-up limit for true fundamental representations, with over a third choosing to purchase it on nil seller recourse transactions.

For deals under \$30 million EV, clients are choosing to purchase total insured limits greater than 10% of the EV, given that claim expenses can quickly mount (and are included in the limit of liability) and the cost differential is small.

While we continue to see 10% of deal value insured for deals around the \$1 billion mark, for larger deals, a combination of limited total capacity (currently \$700 million to \$900 million, depending on industry) and price fatigue is causing insureds to insure below the 10% mark.

Average Limit Purchased



Source: Gallagher Transactional Risk data, based on all R&W bound policies, year to date

Secondaries and Continuation Vehicles

The secondary market became a central growth driver for transactional risk in 2025. As sponsors extended hold periods and sought structured liquidity, R&W for secondary and continuation transactions evolved from novelty to mainstream.

Our client experience confirmed this trajectory: R&W coverage for secondary transactions has become an expectation on both sides of the deal, with the insurance being used to replace traditional liability structures. Policies can be used for both equity and debt secondary transactions.

R&W premiums for secondary transactions typically reflect 1.7% to 2.5% of the insured limit, increasing by 0.3% with coverage for excluded obligations or hybrid coverage. Additional limit for fundamental representations is available at 0.5% to 0.7% of the insured limit. Retentions ranged from 0.25% to 0.5%, reducing to 0.1% to 0.4% after the drop-down period.

Negotiation hot topics now center on cover for buyout-style representations and portfolio-level tax exposures. These matters are typically addressed at the quote stage, where it is important to align insurers' expectations with available due diligence, in addition to the preferred draft of the transaction agreement.

Claims Experience and Market Benchmarks

Claims activity remained a defining theme of 2025. Gallagher's data shows that approximately 20% of policies generated notifications, with around 4% leading to payment. Notably, one in four paid claims reached full policy limits, demonstrating sustained loss severity even as frequency plateaued.

Nearly all R&W insurers noted the severity of notifications has increased, driven by deals with higher valuations and increased sophistication of insureds and advisors making claims. The proportion of full-limit losses varied, with some insurers reporting a third of their payouts were full-limit losses in 2025. The Euclid Transactional (2024) Claims Study reported an average payment of \$6.1 million, with mean recoveries equaling 34% of the policy limit.

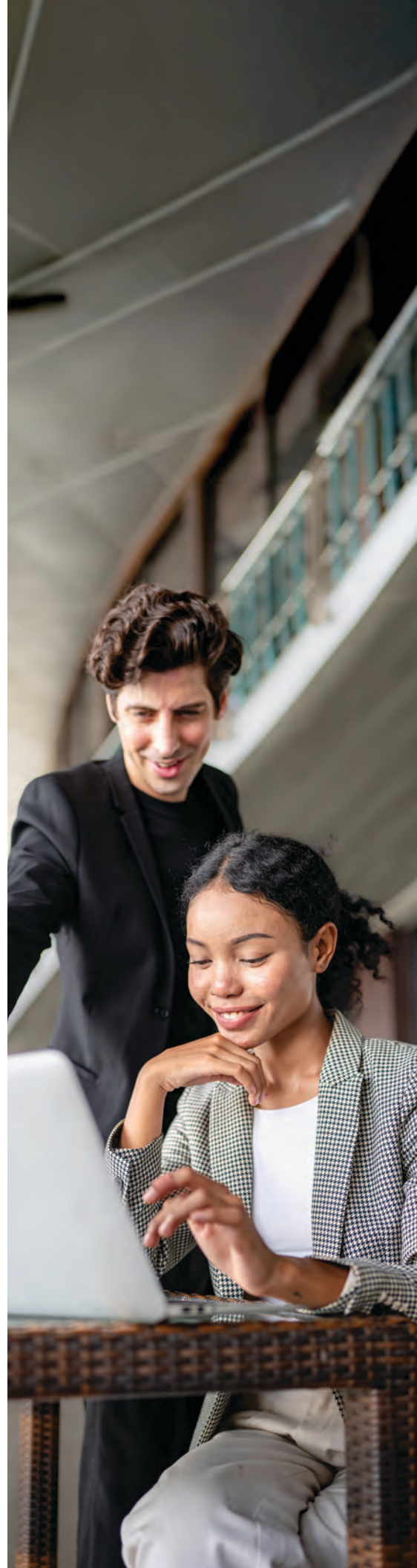
The SRS Acquiom 2024 M&A Claims Insights Report reveals comparable findings for deals that use and don't use R&W. According to the report, 28% of all transactions faced an indemnification claim, while deals backed by R&W insurance saw a slightly higher rate at 31%. These figures have not moved materially since their prior report in 2022.

Across all deals, SRS Acquiom observed that 27% of deals had a claim exceeding \$1 million. Tax (36%) and undisclosed liability (24%) breaches together accounted for 60% of all claims.

Interestingly, R&W insurer data does not flag undisclosed liabilities as a leading source of claims and paid loss. For R&W deals, financial statements were frequently implicated in payouts across insurers (almost half of claims), with other common areas including tax, compliance with laws and material contracts. In payouts involving insureds in the healthcare industry, the most frequently implicated breach types are accounting and financial statements, compliance with laws and IP.

SRS Acquiom recorded an increase in median resolution times between 2022 and 2024, taking 5.6 months from notice to closure for disputed claims, with about 3.7% of claims proceeding to arbitration or litigation. Gallagher observed a similar timeframe to resolve R&W claims from notice, with less than 1% going to arbitration or litigation.

From Gallagher's standpoint, demonstrating the impact on valuation remains the most critical factor in resolving claims. We strongly advise insureds to document how a breach would have affected their acquisition model and to involve financial experts early in the claims process.





Tax Insurance and Tax Credit Insurance

Demand for tax insurance continued to grow in 2025 as clients pursued cross-border and carve-out transactions. Gallagher's placements reflected this trend, especially for coverage addressing identified exposures in spin-outs and restructurings. Generally, primary rates for single-issue tax risks range between 2% and 5%, with underwriting fees falling between \$40,000 and \$100,000.

Tax credit insurance is now an integral part of clean energy and infrastructure financing. In the last 18 months, we have seen an uptick in requests to insure validity and recapture risk related to transferable tax credit structures.

Primary rates for tax credit deals have begun to rise, ranging from 1.6% to 3.5% of the insured limit. Since 2024, there has been a noticeable reduction in appetite for projects with higher markups. Markups exceeding 25% are likely to face limited appetite and the application of risk retention to mitigate increased exposures. Additionally, the number of projects within a portfolio has become a key cost driver, as it increases the underwriting fees insurers charge to cover third-party advisor expenses.

Claims data remains limited, although insurers generally report lower claims notifications and payouts compared to R&W. Insurers expect an uptick in tax credit insurance claims as the first wave of IRA-era projects reach audit of operational milestones.

Outlook for 2026

After two years of market softness, conditions in the transactional insurance marketplace are stabilizing. We project average R&W rates to continue to steadily increase into 2026, indicating moderate hardening. Scope of coverage will remain competitive, with insurers proposing less agreement modifications and willing to underwrite certain matters that they have historically excluded (i.e., collectability of accounts receivable). Underwriting will maintain a strong focus on diligence related to quality of earnings, cyber exposure and tax compliance. Claims handling will continue to be a key differentiator.

Continuation vehicles and secondary sales will remain key components of private equity liquidity strategies, with a projected 20% to 25% year-over-year increase in secondary-related submissions. Tax insurance will continue to provide certainty, while tax credit insurance is expected to align with US energy transition investments.

Claims management will play an increasingly strategic role for sponsors seeking liquidity, as recoveries on policies represent tangible capital contributions for general partners, creditors and limited partners.

References

BCG (2025) The 2025 M&A Report — Regional Perspectives; PitchBook Q3 (2025) US PE Breakdown; Deloitte (2025) Insurance and Tax Credit Outlook; Euclid Transactional (2024) Claims Study; SRS Acquiom (2024) M&A Claims Insights Report; Gallagher (2025) Private Equity: Positioning for the Year Ahead

Richard Hornby

Richard is a leader of Gallagher's Transactional Risk group in New York, part of Gallagher's M&A and Portfolio Solutions group. His group is focused on advising private equity and corporate clients in relation to acquisitions, carve-outs, divestitures and other liquidity events.