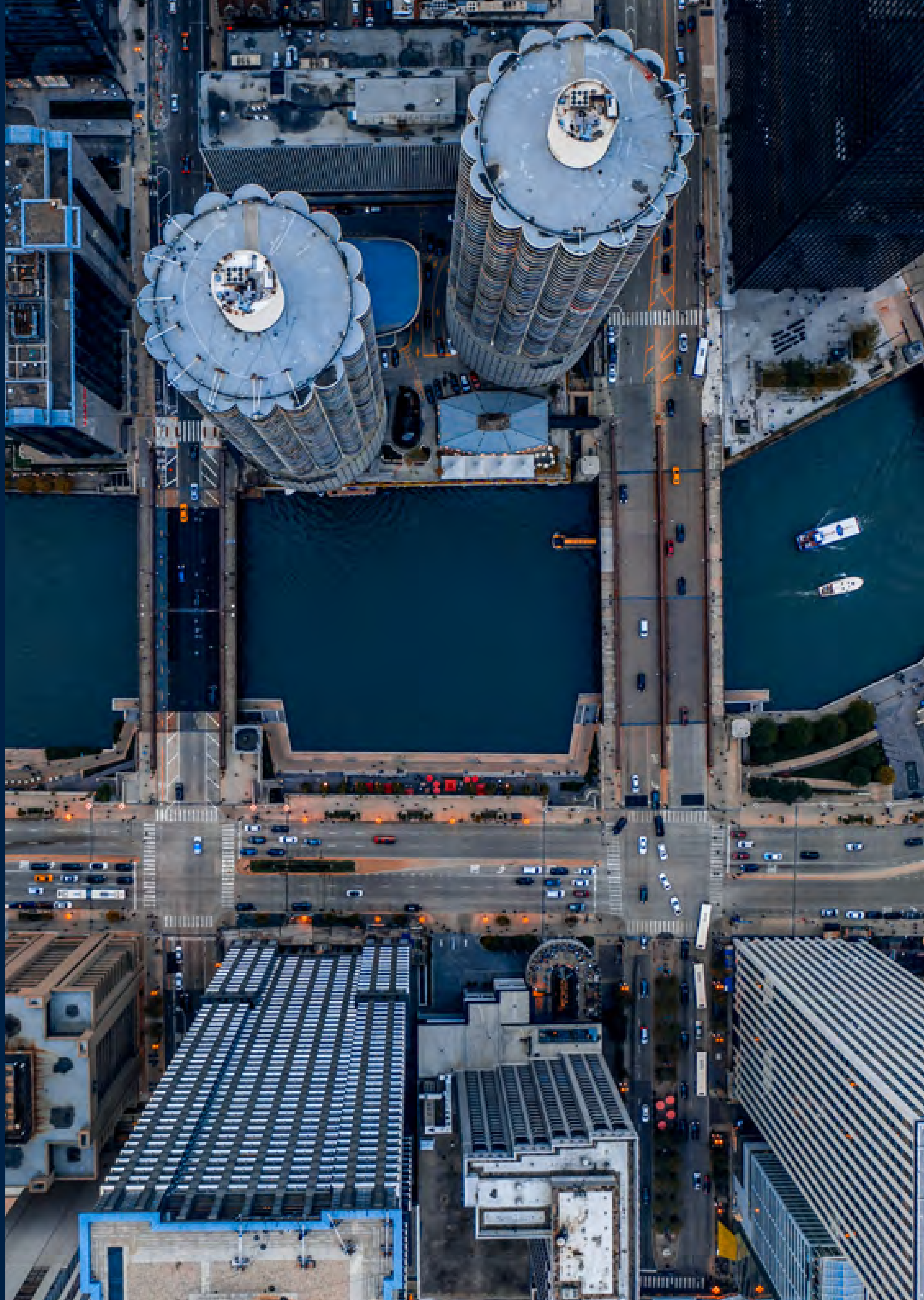
AON

2025 Transaction Solutions Global Claims Study: North America

Managing Deal Risk to Secure Investments and Enhance Returns



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Foreword

We are excited to present the sixth annual edition of the Aon Transaction Solutions Global Claims Study.

Aon has been involved in over 1,600 notified representations and warranties (R&W), warranties and indemnities (W&I), and tax insurance claims and helped its clients secure more than $1.75 billion in payments globally. Our team comprises professionals in North America, Europe, and Asia Pacific (APAC), and is ideally positioned to apply our considerable depth of knowledge to help clients realize the value of transactional risk policies. To demonstrate our global expertise, this year we are providing more in-depth data than ever before, including industry-specific data across North America, regional data across EMEA, and developing trends across APAC. We believe Aon's data provides a unique opportunity for the M&A market to learn from claims made on past transactions to help anticipate how a deal's risk profile might change based on the target company industry, the jurisdiction, or other variables discussed herein.

In North America, 2024 was an active year for claim resolutions. Aon clients received over $300 million in total payments, with a median payment of $5.5 million; both numbers are the highest on record for a single calendar year. While the North American data in this year's study continues to review overall R&W claim frequency and severity trends, we are excited to present new data analysis that examines multiple industries and how claim frequency, severity, and other risk transfer considerations change based on the target industry. While our general industry data section indicates that there is no one industry that is particularly "high risk," there are clearly differences in the nature of the risk exposure illustrated in the individual industry sections. The North American overview of tax insurance illustrates that our clients are being reimbursed for valid claims for both contest costs and assessed amounts, and have successfully negotiated tax authority settlements with insurer contribution where appropriate.

North America

Highlights

01 Through Q4 2024, North American clients have now recovered over $1.4 billion on R&W claims, with over $300 million being paid in 2024.

02 The median R&W claim payment in 2024 was $5.5 million, the highest on record for a single calendar year.

03 An in-depth look at claim frequency and severity across industries indicates that no one industry has proved to be particularly “high risk” for R&W breaches.

04 Compliance with laws, financial statements, and material contracts breaches remain the top drivers of loss in R&W claims.

05 8% of paid claims have received a payment equal to the full policy limit.

Claim Severity and Payment Trends

Aon North American clients were paid over $300 million on R&W claims in 2024, with a median payment of $5.5 million. Both figures are the largest Aon has seen to date in a single calendar year.

Key Takeaway: Aon clients are consistently receiving material payments on R&W policies.

The North American claims team has helped facilitate over 100 claim payments in the last three years, including 39 in 2024. Figure 1 illustrates the fluctuation of annual median and average claim payment size since 2019, with 2024 seeing an increase in both median and average payment size compared with 2023. The slim margin between average and median payment size in 2024, along with a historic median payment amount, confirms that material payments were consistently made to Aon clients last year.

Looking at the same data by year of policy inception (Figure 2), while median payment size has been relatively stable, average payment size has been increasing since 2020, with 2022 at the highest average payment size ($10 million). There isn't enough payment data to provide insights on policy years 2023 and 2024 yet, but initial claim amounts for active claims on these policies suggest that this trend may continue.

Overall, **32% of paid claims were greater than 40% of the policy limit, and 14% of paid claims were greater than 80% of the policy limit** (see Figure 3). Further, 8% of payments were policy limit payments, with a number of those claims resulting in a situation where a client suffered a loss well in excess of the policy limits. The significant percentage of claims being paid in excess of 40% of the policy limit reinforces the fact that insureds are likely buying adequate insurance, and the increase in losses that we have seen clients suffer in excess of policy limits would suggest that the purchase of more than 10% of enterprise value may be warranted in certain circumstances. This is further supported by Figure 5, which indicates that multiplied damages claims are becoming more frequent.

Figure 1: Aon Data: Average and Median Payment Size by Settlement Year

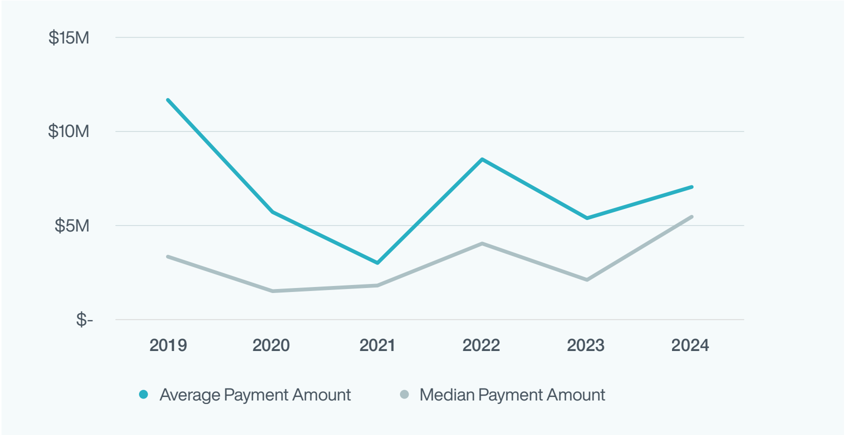
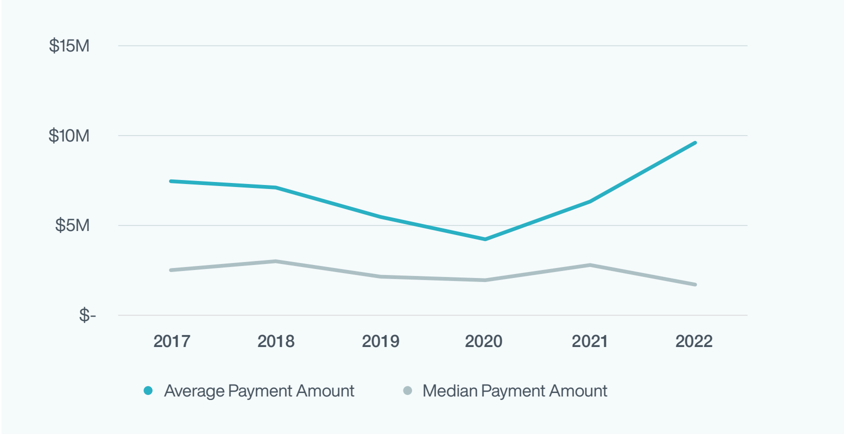


Figure 2: Aon Data: Average and Median Payment Size by Policy Inception Year



Most claim payments are the result of a negotiated resolution between the insurer and insured, with the overwhelming majority getting done without alternative dispute resolution. **Aon data shows that less than 1% of claims are going to binding alternative dispute resolution.** This is consistent with the data from Aon's North America Insurer Survey (Insurer Survey), which showed that approximately 1% of R&W claims are going to arbitration or litigation. Having an experienced claims team that advocates for the insured is vital in the R&W market, and the comparisons between Aon data and the insurer data reinforce that conclusion. As you can see in Figure 4, **Aon clients are receiving a higher percentage of claim payments above $5 million than the rest of the market**. Overall, 19% of Aon claims have been paid, only 4% have been denied, 54% have settled within the retention or are dormant, and 23% are still active.

Looking ahead to predict how active claims may resolve, a key indicator is whether the alleged loss calculations are greater than dollar-for-dollar. Figure 5 shows that the percentage of these claims is increasing. **For Aon policies that incepted between 2021 and 2024, 23% of claims alleged greater than dollar-for-dollar loss**. In comparison, policy inception years 2016–2019 saw 14% of claims alleging loss that is greater than dollar-for-dollar. The exception is 2020, which has been an outlier year in terms of claim severity, and the lack of claims alleging greater than dollar-for-dollar loss is a key reason why.

While we expect the percentage to drop for policy years still on risk (a higher percentage of multiplied damages claims are submitted in the first 12 months of the policy period), the difference in loss calculations between 2016–2019 and 2021–2024 will likely remain significant. For example, policies incepted in 2021 had 20% of claims allege loss that is greater than dollar-for-dollar, which is more than any other year between 2016 and 2019. In the Insurer Survey, 41% of insurers similarly reported that claims alleging a multiple of damages are increasing and 0% reported a decrease.

Figure 3: Aon Data: Paid Losses as a Percentage of Policy Limit

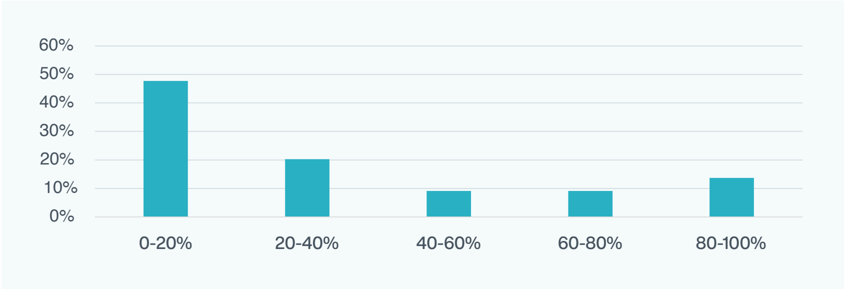


Figure 4: Percentage of Total Claim Payouts by Amount Paid

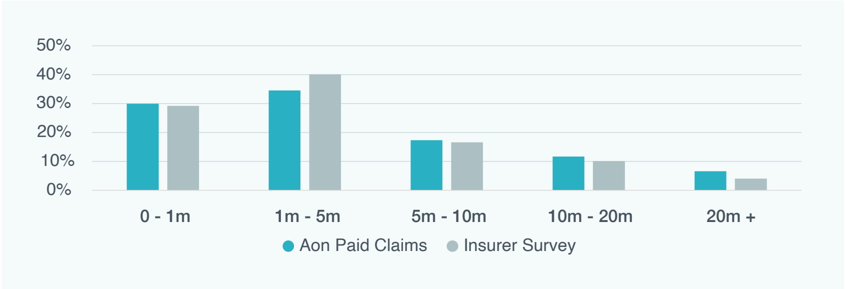
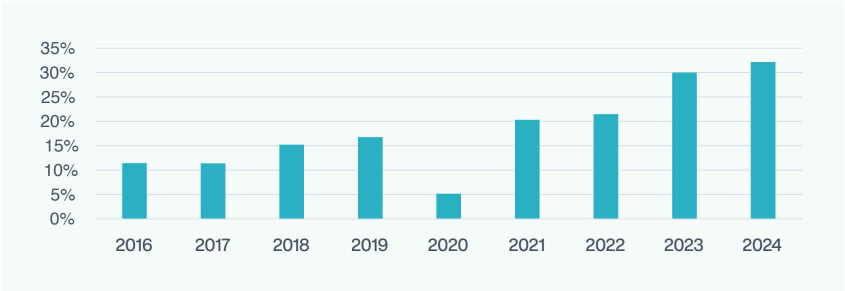


Figure 5: Aon Data: Percentage of Claims Alleging Greater Than Dollar-for-Dollar Loss by Policy Inception Year



Outside the World of R&W
Spotlight on Judgment Preservation Insurance Claims

The media has reported on anticipated losses on single-case judgment preservation insurance policies, which insure against the risk of reversal of a judgment on appeal.

During the early years of litigation risk insurance growth (2015–2021), when most of the policies placed were M&A or transaction-adjacent, carrier loss ratios remained in the low single digits. Over the past several years, litigation risk insurance migrated away from these types of opportunities to single-case judgment preservation risks, driven in part by a post-pandemic slowdown in M&A.

Over the past couple of years, the industry has experienced certain negative developments on some of these single-case judgment preservation policies protecting significant judgment or award amounts. These reported anticipated losses have led to a reduction in carrier appetite, not only in judgment preservation insurance, but also in the broader contingent risk market with respect to opportunities that are not strictly single-case appellate risks. Appetite has reduced even more broadly through the transaction solutions business, where there is no relation whatsoever to these anticipated JPI losses. At the same time, more and more clients have become aware of the many ways in which contingent or litigation risk insurance can ringfence identifiable low-risk issues in a transaction, providing openings for insurers to participate in more measured opportunities. These include multiple trigger releases of escrow and other trapped capital, other types of “legal opinion” risks similar to tax opinion policies, and protection against successor liability claims.

Aon has observed that the carriers performing better within this class typically deploy across a diversified portfolio, thereby benefiting from the non-systemic nature of each risk transfer opportunity.

Claim Frequency

2021 was not the high claim frequency year insurers in North America were anticipating.

Key Takeaway: The downward trend in Aon claim frequency data bottomed out in 2020 at 15%, with more recent policy years trending upward toward historical levels.

Figure 6 compares Aon claim frequency data with results from this year's Insurer Survey. The vertical black line in the center of the graph separates policy years that are still on risk for general representations from those that are now off-risk for general representations. 2021 is the most recent policy year to come off risk and one of particular interest. Industry experts have tracked 2021 closely due to its higher enterprise values and inflated multiples, as well as the fast-paced environment in which diligence and underwriting took place. **Given these market conditions, the industry anticipated higher claim rates on 2021 policies, yet only 16.3% of Aon policies placed in 2021 were notified of a claim and insurers reported only 15% of their 2021 policies received one or more claim notices**. This is the lowest frequency year reported to date in the Insurer Survey. While claim frequency is down, we cannot yet make conclusions on the severity of claims on 2021 policies, as 33% of claims are still active.

Figure 7 compares how claim frequency for each policy year has developed over time by measuring the time from the close of the transaction to the claim notice submission in six-month increments. 2023 is significantly outpacing claim frequency compared with years prior, with an 11% claim frequency just one year into the policy period. 2022 was similarly outpacing prior years during the first 12 months of the policy period; however, frequency of claims for that policy year tapered off significantly during year two.

Figure 6: R&W Claim Frequency by Policy Inception Year

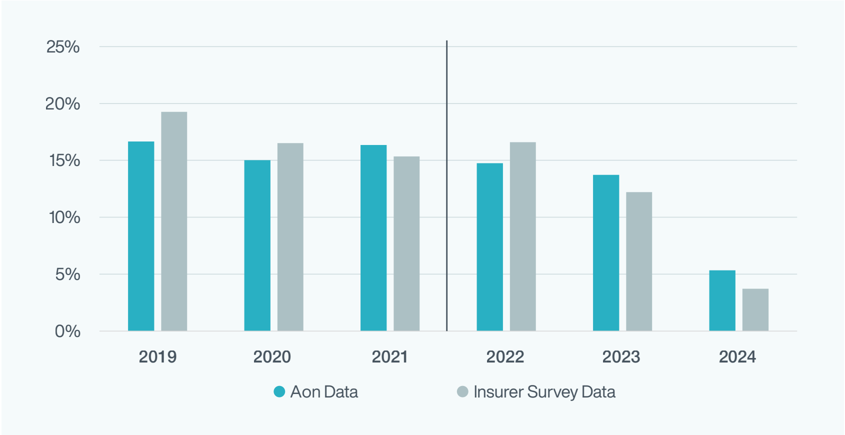
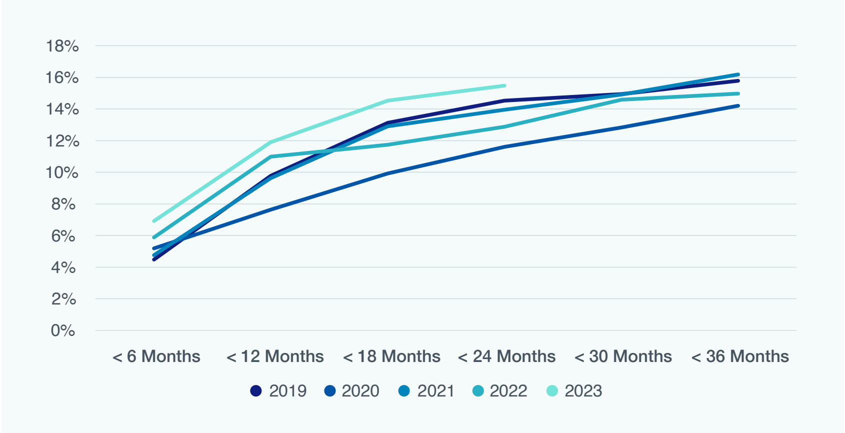


Figure 7: Aon Data: R&W Claim Frequency from Deal Closing to Claim Notification by Policy Year



Breach Type and Notification Trends

Financial statements and material contracts breaches continue to drive severity.

Key Takeaway: We are starting to see some changes in the representations that are cited most frequently. Notably, compliance with laws and tax breaches have become more prevalent; however, the main drivers of loss remain financial statements and material contracts.

Figure 8 shows the frequency with which R&W breaches were cited on policies placed since 2019, as well as the losses attributable to each breach type. **Compliance with laws is still the most frequent breach type at 20%, followed by tax, which jumped up to 17%, and financial statements and material contracts at 13%.** Notably, product liability is becoming a more severe breach type, with an outsized percentage of total loss compared with its frequency.

M&A Perspective: The associated costs of potentially defective products such as warranty issues, product recalls, and lost contracts with retail distributors are all contributing factors to a possible diminution in value of the target.

While interim breaches still occur less frequently, we have seen a number of notifications this year submitted on Aon's proprietary IBEX insurance policy. The large majority of these claims are still active and have not yet resulted in a resolution.

One breach type that we are watching closely is intellectual property representation. **While neither frequency nor severity has shown major increases in our data, 36% of insurers have reported an increased frequency of intellectual property breaches and only 12% reported a decrease.** Of claims that come in more than 12 months post-closing, intellectual property is the second-most-severe breach type, behind only financial statements (see Figure 9).

We continue to provide updated data on claims coming in more than 12 months post-closing because this is the typical survival period for a seller escrow. Any recoveries on claims submitted more than 12 months post-closing demonstrate the clear benefit to the buyer of an R&W policy, as those losses would not typically be recoverable from the seller escrow. The most frequent breaches being cited within 12 months post-close remain compliance with laws, tax, and financial statements.

Figure 8: Aon Data: Frequency and Percentage of Total Loss Paid by Primary Type of Breach

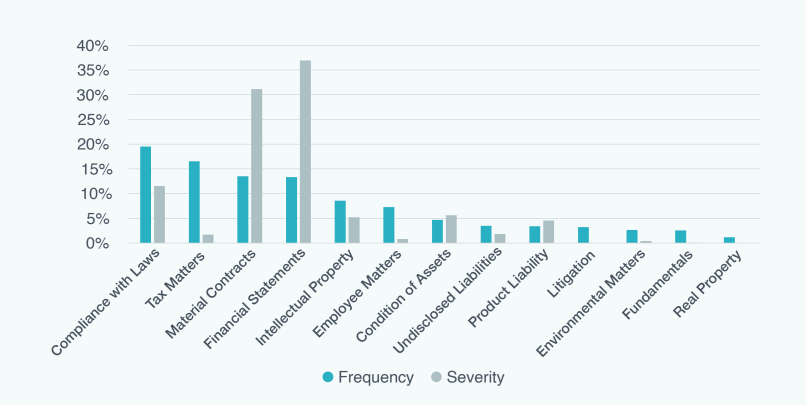
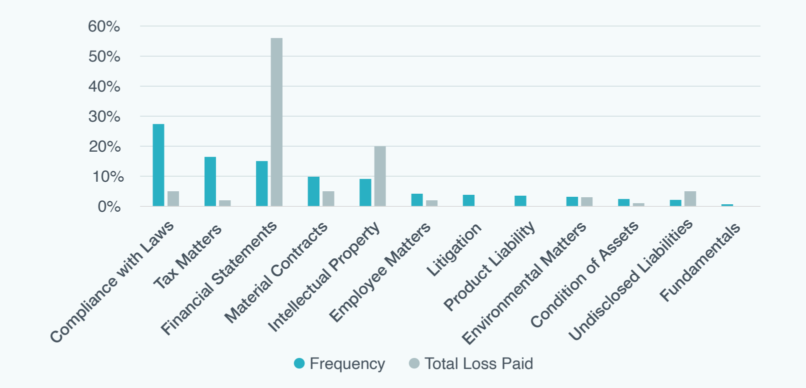


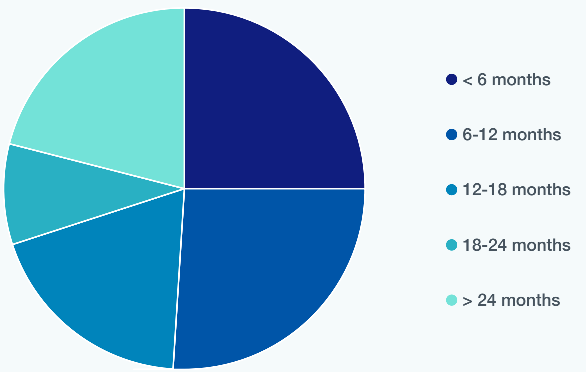
Figure 9: Aon Data: Frequency and Percentage of Total Loss Paid by Primary Type of Breach (Notices Submitted > 12 Months Post Closing)

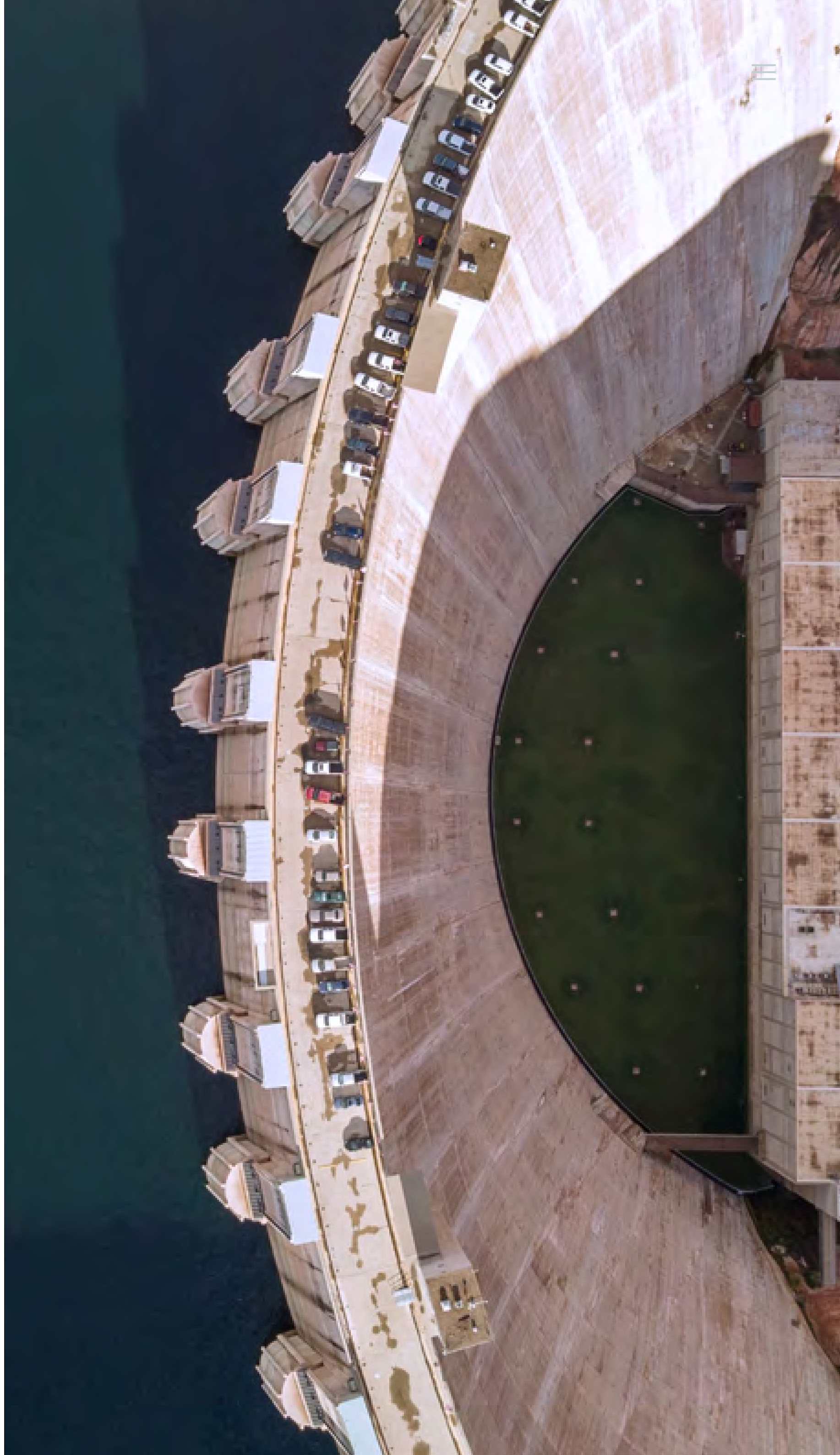


Overall, 49% of claims are coming in more than 12 months post-closing (see Figure 10) and over $400 million has been paid to Aon clients on notices submitted more than 12 months post-closing.

Key Takeaway: The three-year policy period on R&W policies provides a clear benefit to buyers compared with the traditional one-year seller escrow. Double the number of breaches are being reviewed for coverage, given the extended reporting period on R&W policies compared with traditional escrows.

Figure 10: Aon Data: Time from Closing to Notice (Policies Where Coverage for the General Representations Has Expired)





General Industry Sector Trends

Aon's proprietary industry data provides valuable insights to dealmakers.

As of Q4 2024, the North American transaction solutions claims team has handled over 1100 claims and over 200 claim payments. After surpassing these milestones, we now possess the volume of data required to provide deeper insights into the industries in which our clients frequently operate. The following industry sections draw comparisons with the general data provided earlier in the study and expand on the claims being seen in each industry and the issues driving loss.

> **Key Takeaway:** While each industry may have a different risk profile, our data shows there is no particular industry that stands out as having significantly higher risk.

The data shown in Figure 11 displays a remarkably even distribution across all industries for claim frequency and severity compared with the percentage of deals they comprise in Aon's pipeline. It should bring comfort to dealmakers that there does not appear to be one "high-risk" industry for R&W breaches. However, the data also shows that there is still significant deal risk across sectors and meaningful differences with respect to type of R&W breaches being identified.

Figure 11: Aon Data: Respective Percentage of Deals, Claim Notifications and Claim Payments by Industry Sector (2019–2024)

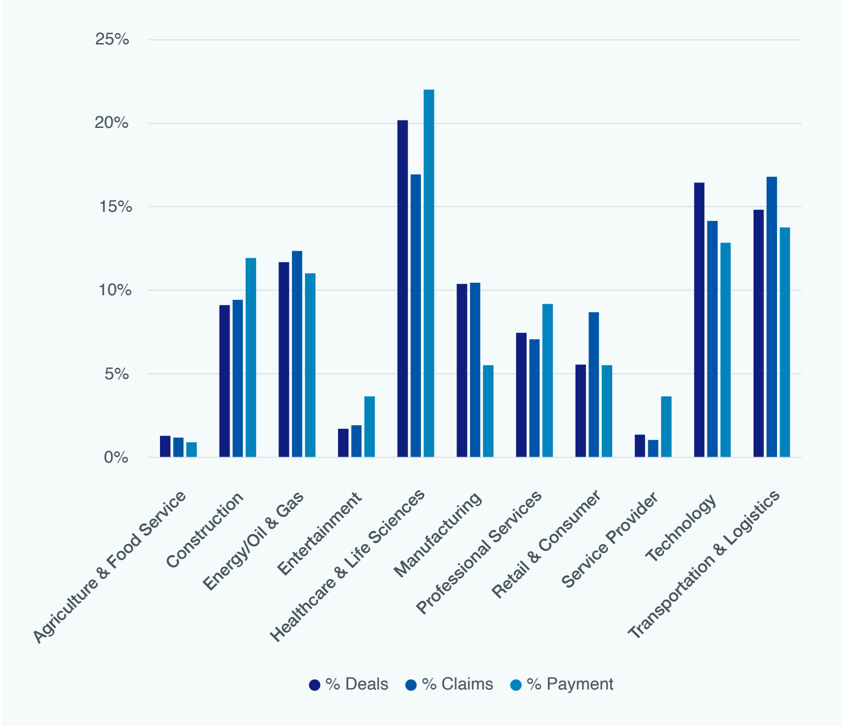
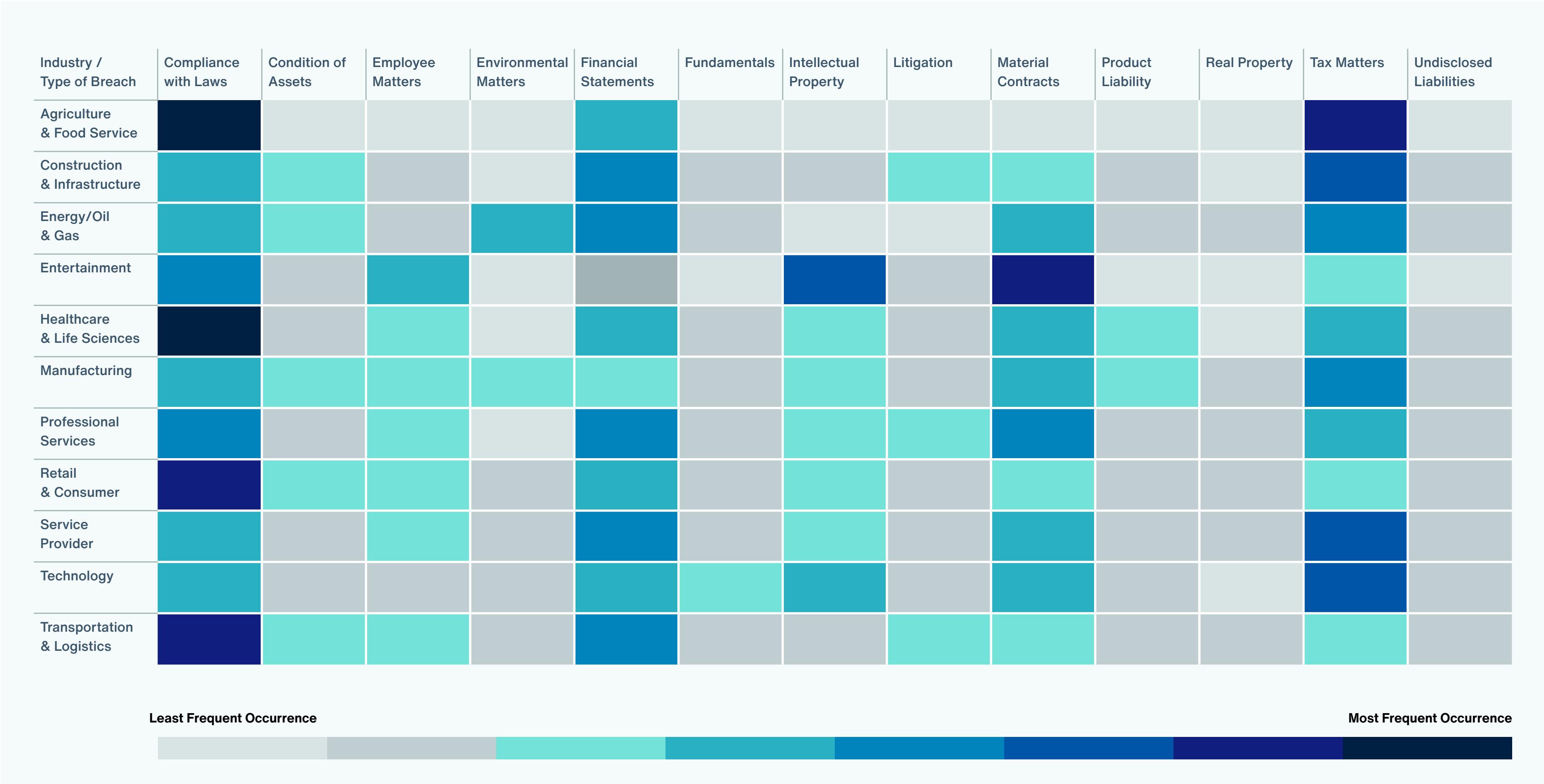


Figure 12: Aon Data: Industry Heat Map



The industry heat map shown in Figure 12 provides an overview of the most frequent breaches across sectors and illustrates that breach frequency can vary by industry, making this information valuable to deal professionals when evaluating risk.[1]

In the following sections, we have provided an in-depth examination of seven industries and the underlying fact patterns most commonly driving claims and payments.

[1] Looking for historical R&W claim information related to general trends? Click here for access to Aon's 2024 claims study, which provides additional insights based on Deal Size, Breach Frequency and Timing, Claim Process Advice, and in-depth claim studies.

Healthcare & Life Sciences

Billing and Coding Issues Remain a Key Focus in Healthcare Deals and Intellectual Property a Key Focus in Life Sciences Deals

As of Q4 2024, Aon clients have recovered $122.6 million in payments on healthcare claims. Including the retention, $185.8 million in loss has been recognized. Aon clients have 35 active claims in the sector.

Key Takeaway: Heightened due diligence around potential billing and coding issues is likely contributing to the lower frequency of financial statements claims.

The compliance with laws representation is cited most often on healthcare claims at 32%, which is notably higher than the 19% average across all industries (see Figures 8 and 13). Figure 14 shows the breakdown behind what is causing the compliance with laws breaches; billing and coding makes up only 26% of the industry's compliance with laws claims.

While billing and coding issues contribute to the severity of compliance with laws breaches, the severity is also attributable to violations of non-healthcare-specific laws and regulations (see Figure 14). These include alleged violations of wage and hour laws, anti-discrimination legislation, anti-spam legislation, and privacy laws.

Financial statements breaches have a slightly lower frequency in the healthcare industry (10%) compared with the average across all industries (13%) but remain the representation that has seen the greatest percentage of total loss paid. This is primarily driven by issues with accounts receivable (due to aging/inability to collect) and billing and coding issues that also impact the financials.

M&A Perspective: However, it appears that a focus on financial statements issues during diligence has been effective in keeping down the overall frequency of these claims. They are the fourth-most-common breach type for the healthcare industry after compliance with laws, material contracts, and tax matters.

Figure 13: Aon Data: Healthcare Frequency and Percentage of Total Loss Paid by Type of Breach

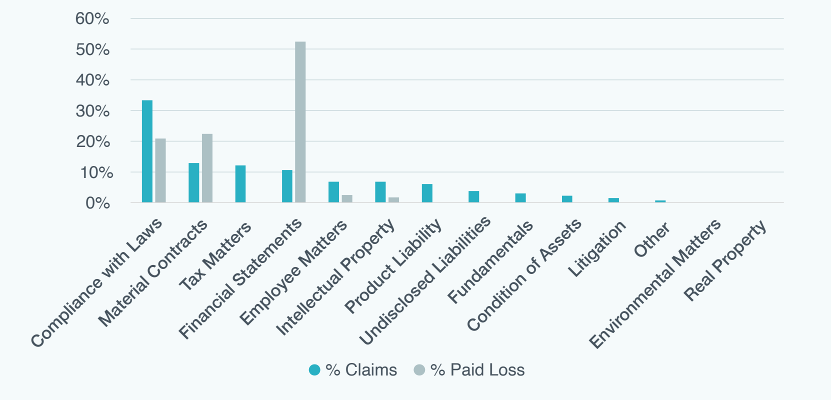
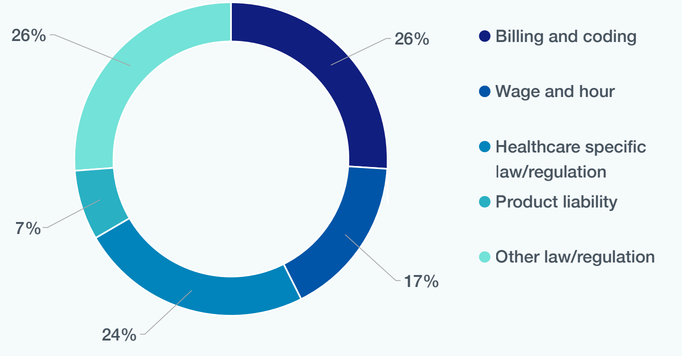


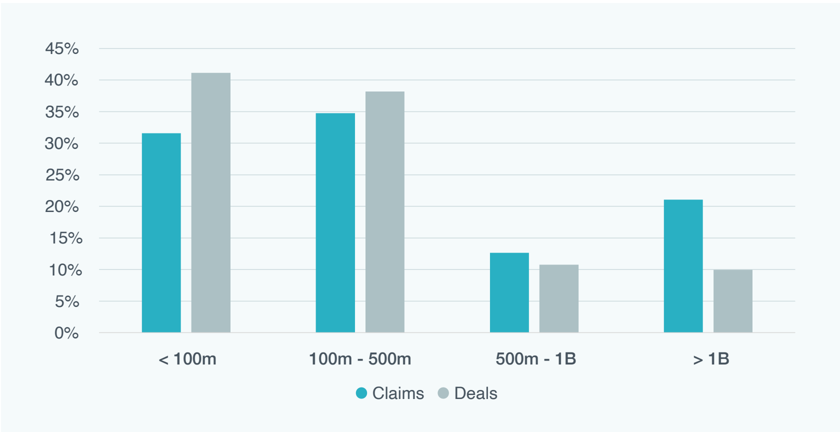
Figure 14: Aon Data: Issues Underlying Healthcare Compliance with Laws Breaches

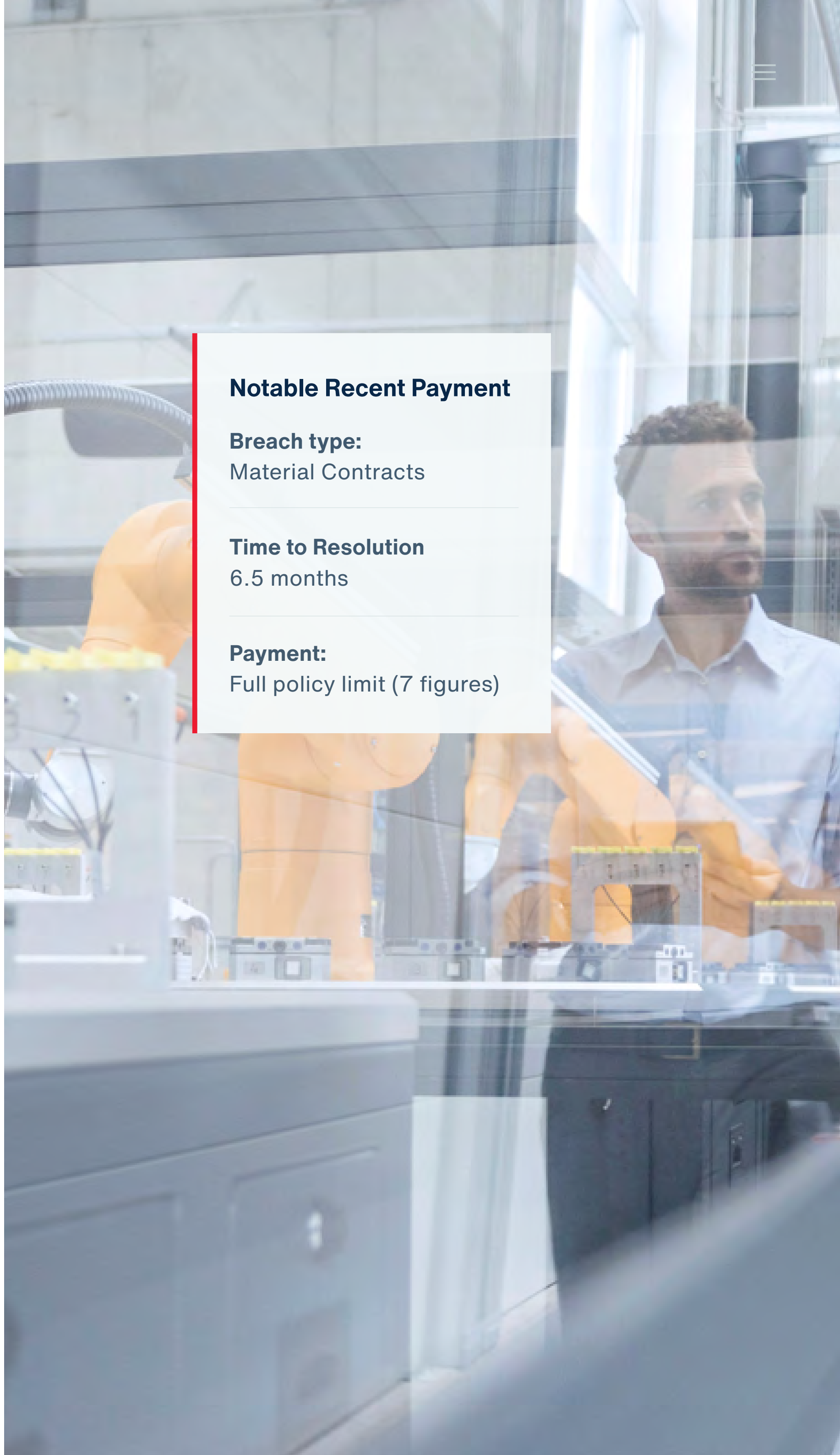


Breaches of intellectual property (IP) representation remain an area of focus for life sciences deals. While currently low in frequency and severity in Aon data, loss of drug or product exclusivity, or a reduction in the time that a company will have exclusivity, can have meaningful consequences for a company in this industry. Currently, there are active claims alleging significant loss arising from an IP breach that are being evaluated by R&W insurers.

With respect to claim variation in these industries based on deal size, smaller deals (enterprise value of $500 million or less) constitute more than 65% of the claims submitted by policyholders (see Figure 15). Deals with an enterprise value in excess of $500 million have a claim frequency that is higher than the proportion of Aon's book attributable to deals of that size. This is particularly notable for deals with a value in excess of $1 billion, which make up 21% of the claims but only 10% of healthcare and life sciences deals insured by Aon.

Figure 15: Aon Data: Percentage of Aon Healthcare Claims and Deals by Deal Size (2019–2024)





Notable Recent Payment

Breach type:
Material Contracts

Time to Resolution
6.5 months

Payment:
Full policy limit (7 figures)

Technology
Intellectual Property Comes into Focus for Tech Deals

As of Q4 2024, Aon clients have recovered $183.3 million in payments on technology claims. Including the retention, $265.6 million in loss has been recognized. Aon clients have 27 active claims in the sector.

> **Key Takeaway:** The creation, implementation, and use of technology products creates exposure for buyers across financial statements, material contracts, and intellectual property representations, making diligence around these disclosures paramount.

Figure 16 shows that in the tech sector, the most frequent breach types are tax matters (21.7%), material contracts (18.4%), and intellectual property (15.8%). These three breach types are each above the all-industry averages (16.6%, 13.5%, and 8.6% respectively). Though tax is the most-cited breach type, these claims tend to be low in severity. **The main causes of tax claims are sales and use tax audits, which often result in no assessment or only a minor tax adjustment.**

While the financial statements breach is not among the most common breach types, like many industries, financial statements claims make up the highest percentage of recovered loss across the tech sector. **The common financial statements breaches in this sector are accounts receivable issues; improper tracking of billing/services provided; or, like other industries, more run-of-the-mill accounting errors that have an impact on EBITDA.**

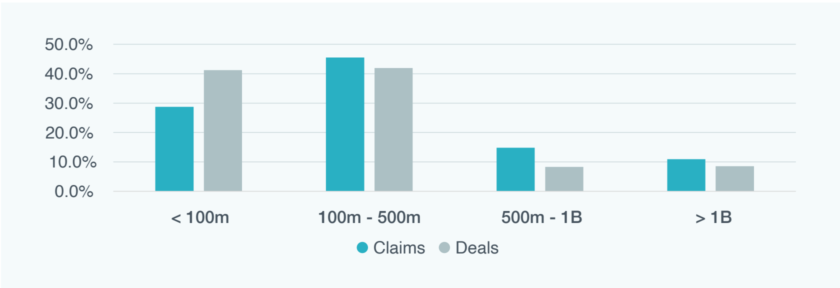
Another source of loss across the tech industry is related to the implementation of contracts. This typically relates to material contracts representations but can also trigger breaches of the financial statements representations. One example we have seen is when a contract to implement a tech product is made pre-closing, but the date to complete the implementation is in the post-closing period. When the buyer receives control of the company, they realize that the implementation date cannot be met, as the project is behind schedule. This can result in loss related to having to renegotiate the contract, termination of the contract, or loss of additional services that were scheduled to be provided post-implementation.

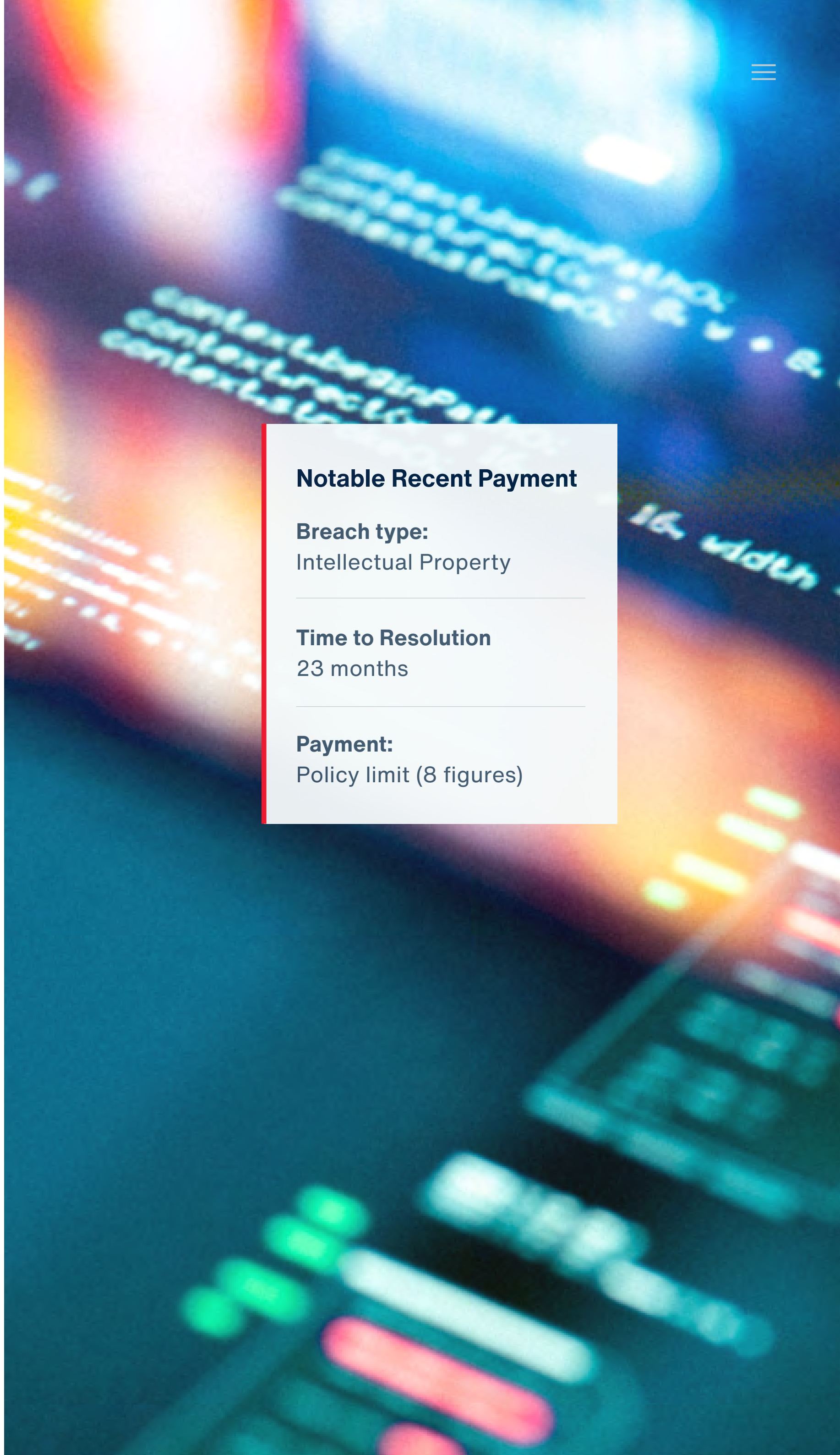
Figure 16: Aon Data: Technology Frequency and Percentage of Total Loss Paid by Type of Breach

The final main cause of loss in the tech sector is related to claims that arise from a breach of the intellectual property representation. These claims can be seen in different types of businesses but are most often found in the software industry when a third party alleges that the company's software products are infringing on its IP. **IP lawsuits and associated losses under the policy can have multiple outcomes ranging from mild to severe, such as (1) defense costs only as the company defeats the lawsuit; (2) a lump-sum payment to resolve the IP dispute with the company retaining the IP; (3) an ongoing obligation to use the IP, such as a license or royalty; or (4) a determination that the company cannot use the IP and a potential complete loss of the value of the transaction.**

Lastly, Figure 17 shows that deals below $100 million in the tech sector have a lower rate of claims than deals above $100 million. In fact, while claims below $100 million make up over 40% of all deals, they only make up 29% of claims. Conversely, for deals between $100 million and $500 million, between $500 million and $1 billion, and over $1 billion the claims rate is higher than the percentage of deals. The largest discrepancy in this band is in deals between $500 million and $1 billion, where these deals make up 8.3% of all tech transactions but account for 14.9% of all claims.

Figure 17: Aon Data: Percentage of Technology Claims and Deals by Deal Size (2019–2024)





Notable Recent Payment

Breach type:
Intellectual Property

Time to Resolution
23 months

Payment:
Policy limit (8 figures)

Energy, Oil & Gas
Assets Key to Deals as Claims Move Through the Pipeline

As of Q4 2024, Aon clients have recovered $90.3 million in payments on energy, oil, and gas claims. Including the retention, $149.7 million in loss has been recognized. Aon clients have 10 active claims in the sector.

> **Key Takeaway:** The prevalence of high-value assets in this industry increases the likelihood of condition of asset claims.

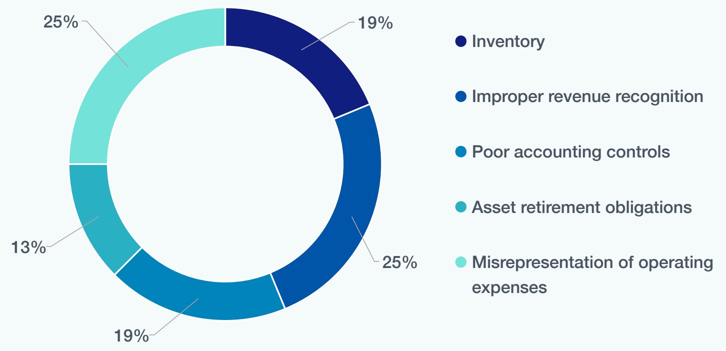
One of the most relevant breach types for the energy (including renewable energy), oil, and gas industry is condition of assets, which accounts for 12% of all claim notices compared with 5% of claim notices filed for all industries (see Figures 8 and 18). **Condition of assets breaches have resulted in 24% of the total claim payments made in the energy, oil, and gas industry to date, which is among the highest for any industry**. Given these transactions often involve considerable investments in assets such as pipelines, machinery, equipment, and facilities, special attention should be given when negotiating the language of this representation along with conducting appropriate due diligence. The issues driving these claims have included a failure to properly test and maintain pipelines, repair and/or replace equipment and machinery, or maintain facilities in good operating condition. In addition, in some cases these issues can require the pipeline, equipment, or facility to be shut down for repair or replacement. In this scenario, the resulting loss can grow to where the company suffers lost profits and/or damaged customer relationships during the downtime.

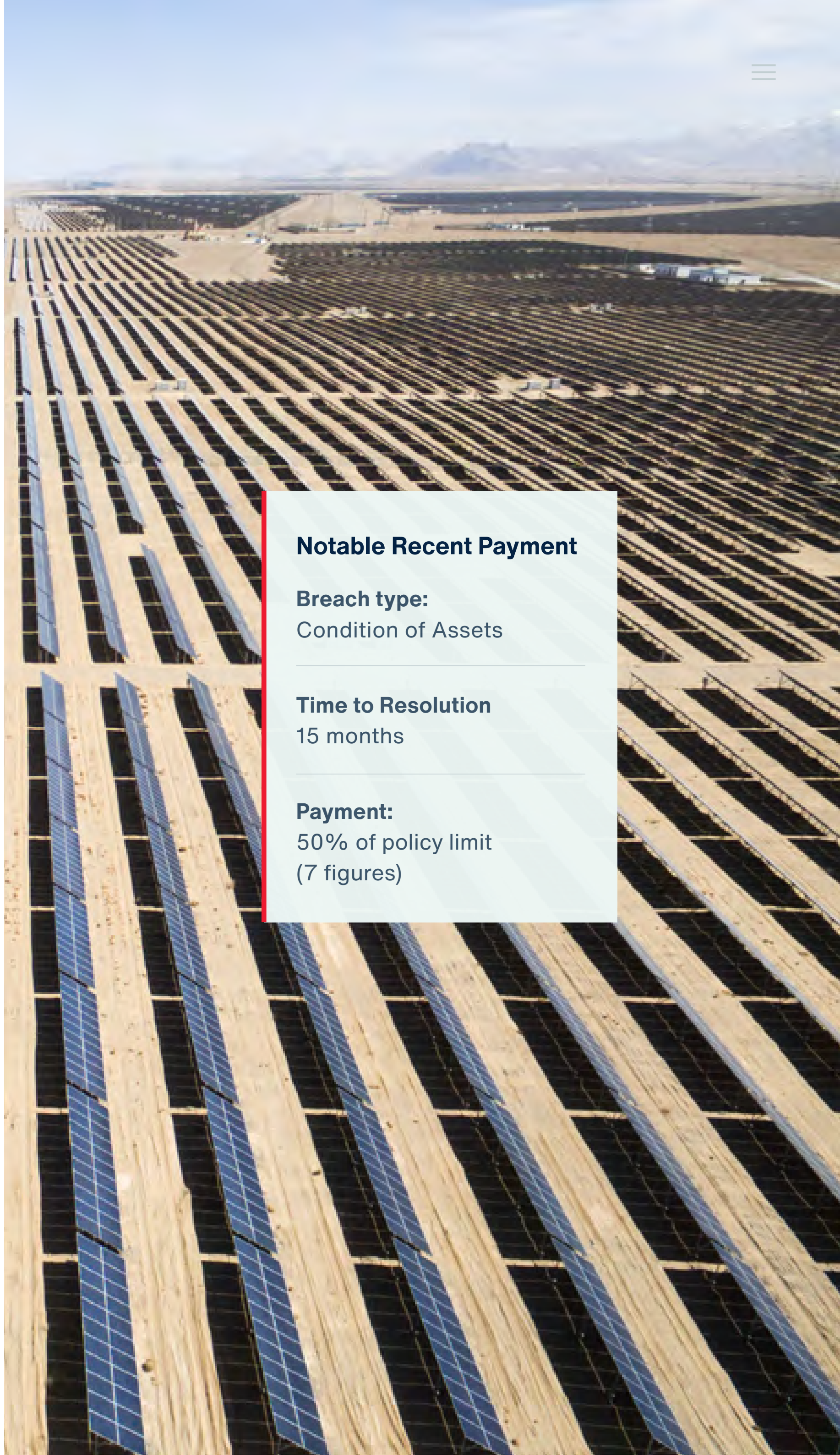
Financial statements breaches are also on the high end of frequency and severity, accounting for 43% of claim payments in the industry. Figure 19 illustrates the various matters underlying financial statements breaches, which include missing or obsolete inventory, misrepresentations of operating expenses, improper revenue recognition, and poor accounting controls or policies. **The issue of a failure to disclose or accrue for asset retirement obligations, which is a risk that is highly relevant to this industry, accounts for 12.5% of financial statements claims. This financial risk exposure has wide applicability in the energy, oil, and gas industry due to the existence of extensive infrastructure with wells, facilities, and pipelines as well as other environmental liabilities.**

Figure 18: Aon Data: Energy, Oil and Gas Frequency and Percentage of Total Loss Paid by Type of Breach

The material contracts representation is another area where we have seen claim frequency and severity. As discussed in the payment severity section, breaches related to material customer or vendor contracts drive claim severity across all industries. While it is not an industry-specific risk, due to the infrastructure or specialized equipment that is sometimes required to service customers or work with certain vendors, a material contracts breach can be more damaging to a company in this industry where the loss of a customer or vendor occurs.

Figure 19: Aon Data: Issues Underlying Energy, Oil, and Gas Financial Statements Breaches





Notable Recent Payment

Breach type:
Condition of Assets

Time to Resolution
15 months

Payment:
50% of policy limit
(7 figures)

Retail & Consumer
Product and Inventory Issues Can Lead to Large Losses

As of Q4 2024, Aon clients have recovered $215 million in payments on retail and consumer claims. Including the retention, $320 million in loss has been recognized. Aon clients have 36 active claims in the sector.

> **Key Takeaway:** The retail industry often relies on a high volume of smaller transactions, creating exposure to large claims arising from inventory management and consumer trends that negatively impact the balance sheet.

The most frequent breach type that leads to claims in the retail and consumer industry is compliance with laws and, with a relative frequency of 26.5%, it is above the all-industry average of 19% (see Figures 8 and 20). **However, the compliance with laws claims in this sector are significantly lower than the all-industry severity data, accounting for just over 2% of loss compared with the 12% market average.** Our data shows that wage and hour lawsuits make up the majority of these compliance with laws breaches. Since the retail and consumer industry has a high number of lower-wage hourly employees, these claims continue to fall at or just below retention. As retentions remain near historical lows, it will be interesting to see whether a higher percentage of these breaches will result in losses above the policy retention in the future.

Issues surrounding inventory lead to 35% of all financial statements claims (see Figure 21) and account for significant losses in this sector. **Claims are arising from issues around inventory control, which can result from poor physical counting in the warehouse; inventory management systems that are not accurately tracking warehouse operations; or even issues arising from the improper tracking of refunds, returns, and restocking.** Depending on the facts underlying these issues, they can touch on a few breach types, but most commonly large losses related to these issues show up as financial statements breaches due to the impact of this missing or unaccounted-for inventory on EBITDA. This industry is also commonly prone to other types of financial statements breaches. Channel stuffing and issues arising from inflated sales numbers because of a limited time promotion/discount have also led to large losses suffered by our clients.

Figure 20: Aon Data: Retail & Consumer Frequency and Percentage of Total Loss Paid by Type of Breach

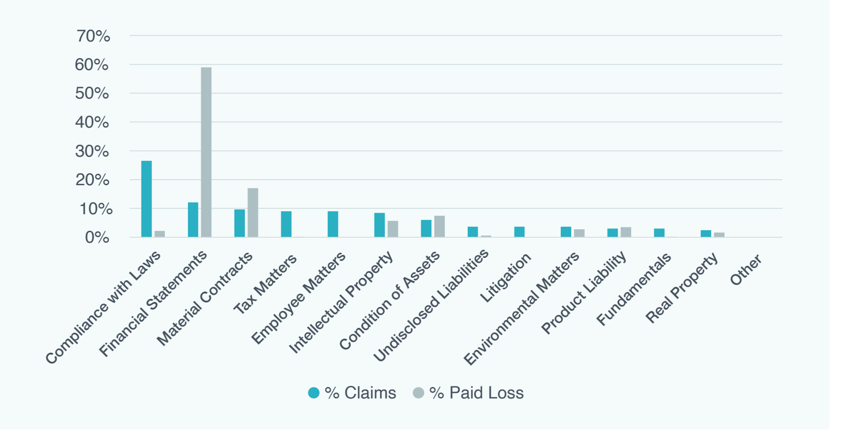
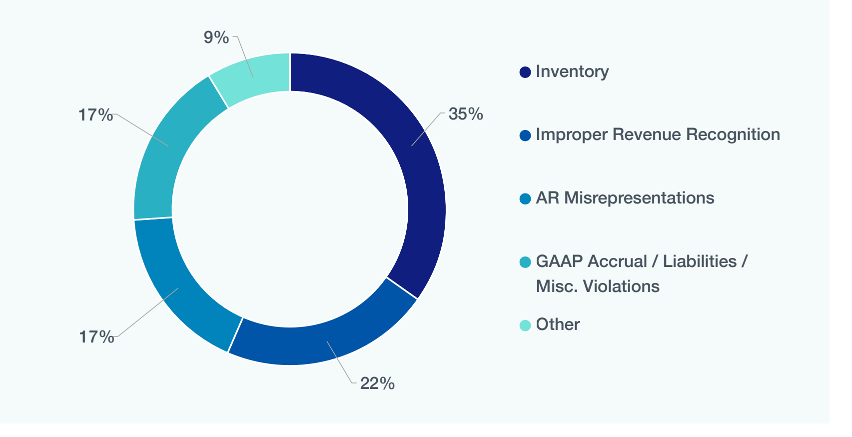


Figure 21: Aon Data: Issues Underlying Retail and Consumer Financial Statements Breaches



In addition, the business interests of consumer product companies can often be heavily tied to relationships with “big box” stores and it can result in high-value claims when this relationship becomes impaired. We are predominantly seeing issues related to customer complaints leading to a big box store no longer purchasing the product, products only valued when on promotion but not at full price, or even when a product falls out of fashion and the big box store no longer wishes to give shelf space to said product. Moreover, sometimes these issues can be challenging to diligence, as certain large outlets will not speak with potential acquirers before closing. When these impairments occur pre-close but are not adequately disclosed, our clients may be left with a company worth less than was represented.

The retail and consumer industry sees a higher percentage of claims on deals for over $500 million than for smaller deals. As Figure 22 shows, deals where the enterprise value is between $500 million and $1 billion make up 15% of all deals, but 23% percent of claims. The discrepancy on a percentage basis is even more pronounced for deals with an enterprise value greater than $1 billion, where those deals account for 3.5% of all deals but 7% of all claims.

Figure 22: Aon Data: Percentage of Aon Retail and Consumer Claims and Deals by Deal Size (2019–2024)

Notable Recent Payment

Breach type:
Product Liability, Material Contracts & Financial Statements

Time to Resolution
18 months

Payment:
Loss in excess of policy limits and full insurance tower payment

Construction & Infrastructure

Financial Statements Are Key Focus for Construction and Infrastructure Deals

As of Q4 2024, Aon clients have recovered $91.9 million in payments on construction and infrastructure claims. Including the retention, $123.2 million in loss has been recognized. Aon clients have 21 active claims in the sector.

> **Key Takeaway:** Inventory issues, WIP adjustments, and a failure to accrue for liabilities drive financial statements payments.

The construction and infrastructure sector has seen just over 50% of the payments made to companies relate to the financial statements breach type (see Figure 23). These claims have arisen out of problems with inventory (missing, overvalued, obsolete), poor accounting procedures resulting in a failure to adequately accrue for bad debt or other liabilities, issues with work-in-progress (WIP) adjustments, and the incorrect depreciation of assets.

Behind financial statements, compliance with laws breaches account for 11% of the claims made and 20% of the total amount paid. The relevant risk exposure for the construction industry is wage and hour violations. It is common for the construction industry to employ hourly workers and the nature of the job can lead to problems with adequate compensation, overtime pay, independent contractor misclassification, and union-related issues. While we see most wage and hour claims settle, Aon clients in this industry have still recovered seven-figure amounts on several claims.

For the infrastructure industry, condition of asset claims have figured meaningfully in paid losses, receiving 14% of the total amount paid to date. The cost to repair or replace major infrastructure has proved significant for clients in this industry and can often involve complicating factors, such as changes to commodities or labor markets and environmental regulations that must be considered. Diligencing large infrastructure assets can be difficult and we have seen significant claims arise out of operational issues or structural defects that were not disclosed prior to the close of the deal. It has also been the case that perceived small problems with infrastructure have, as a result of undisclosed seller actions, resulted in significantly increased post-close repairs and expenses for buyers.

Interestingly, 60% of the claims filed by companies in the construction and infrastructure industry category have been submitted more than 12 months post-close. This is higher than the average across all industries, which sees about 50% of claims submitted more than 12 months post-close. About 33% of the claims coming in post 12 months are the result of litigation or tax matters, which often are discovered and noticed later in the policy period. However, the remaining claims that have come in later in this industry include claims alleging a breach of the compliance with laws, financial statements, and material contracts representations (see Figure 24).

Figure 23: Aon Data: Construction and Infrastructure Frequency and Percentage of Total Loss Paid by Type of Breach

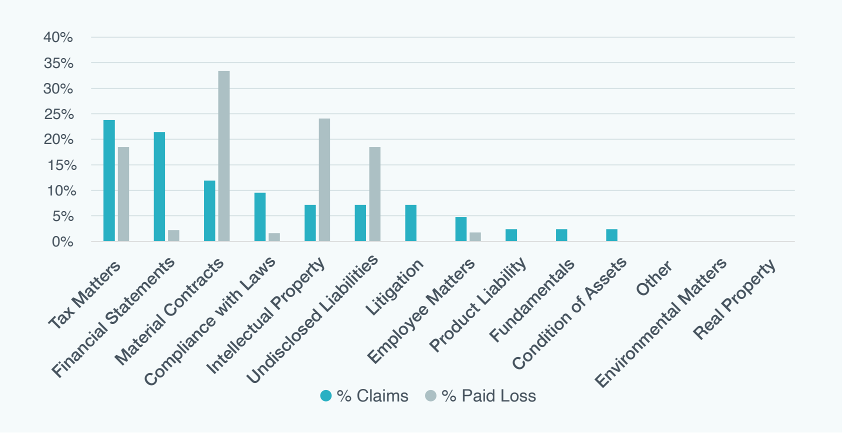


Figure 24: Aon Data: Construction and Infrastructure Frequency and Percentage of Total Loss Paid by Type of Breach (Notices Submitted > 12 Months Post Closing)

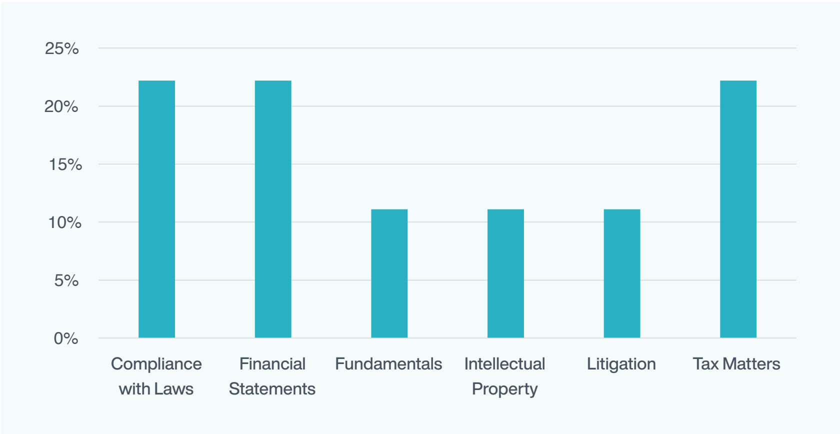
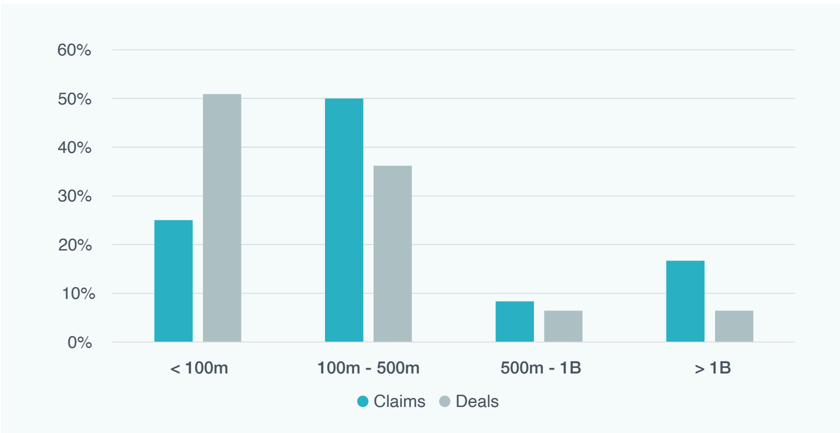
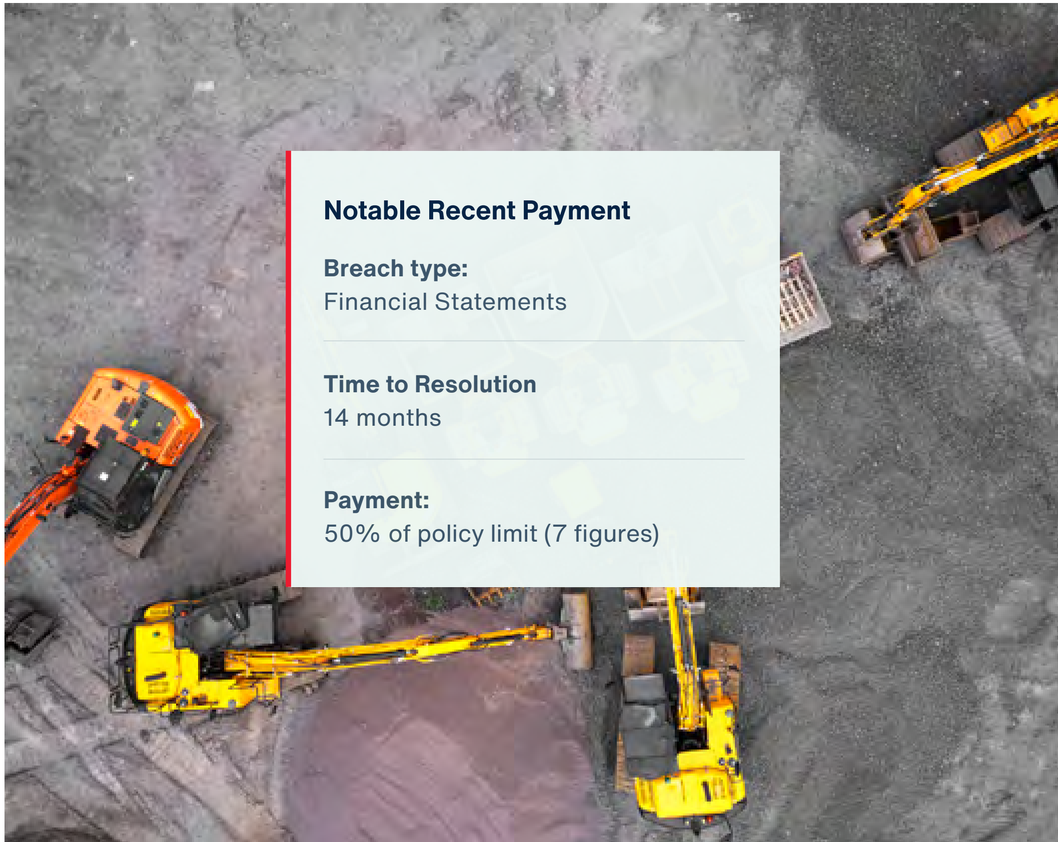


Figure 25: Aon Data: Percentage of Construction and Infrastructure Claims and Deals by Deal Size (2019–2024)



Finally, larger deals in this industry category appear to have a higher frequency of claims compared with the percentage of total deals that fall within the same deal size band. Deals with an enterprise value between $100 million and $500 million had a claim frequency of 50% but accounted for only 36% of all policies placed in this industry (see Figure 25). Deals with an enterprise value above $1 billion accounted for 17% of all claims in this industry but only 6.5% of all deals. Smaller deals with an enterprise value below $100 million saw only 25% of clams filed despite constituting just over 50% of the policies placed in this industry.



Notable Recent Payment

Breach type:
Financial Statements

Time to Resolution
14 months

Payment:
50% of policy limit (7 figures)

Manufacturing
Product Quality and Status of Key Customer Relationships Are the Primary Risk Factors

As of Q4 2024, Aon clients have recovered $228.7 million in payments on manufacturing claims. Including the retention, $325.6 million in loss has been recognized. Aon clients have 39 active claims in the sector.

> **Key Takeaway:** Severity in the manufacturing sector is tied to being able to timely fill customer orders without sacrificing quality.

The manufacturing industry has had over 50% of losses result from material contracts breaches (see Figure 26). Underlying these breaches are the failure to meet performance/quality obligations under supplier agreements, general misrepresentations around the nature of business relationships with key customers, undisclosed or loss generating contracts, and undisclosed discounts and rebates offered to client pre-closing (see Figure 27). **While material contracts/customer claims are not much more frequent in this industry (averaging 14% of the claims in manufacturing compared with 13% in all industries), there is high customer concentration in the industry and as a result, when claims do arise, they can often be significant.**

Unsurprisingly, product liability breaches are a top driver of loss in this industry as well (20% compared with the overall average of 4.6%), along with financial statements and condition of assets breaches. While the fact patterns giving rise to these breaches may lend one representation to be more applicable than another for a given claim, the underlying cause of these breaches is related to inventory. Inaccurate warranty reserve calculations and allegations of product defects have resulted in significant costs and penalties to recall products, costs to dispose of obsolete inventory, and increased manufacturing costs to rectify the issue. Additionally, inaccurate representations about the conditions of manufacturing facilities have led to excess scrap and manufacturing costs and lost revenue, and have made existing contracts unprofitable.

Figure 26: Aon Data: Manufacturing Frequency and Percentage of Total Loss Paid by Type of Breach

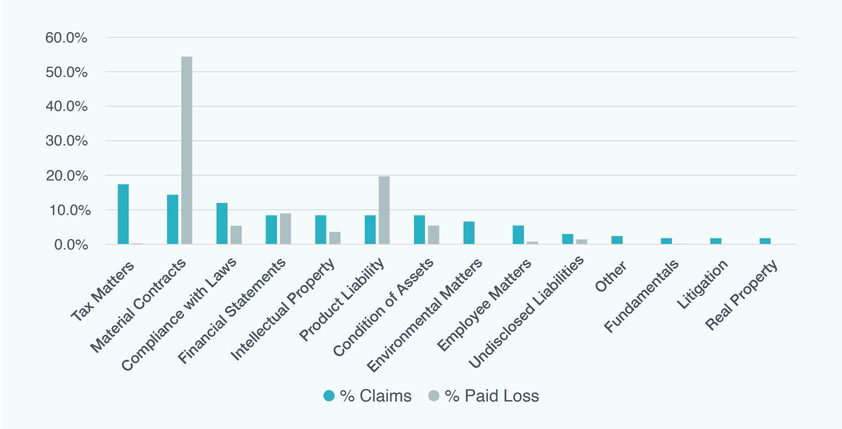
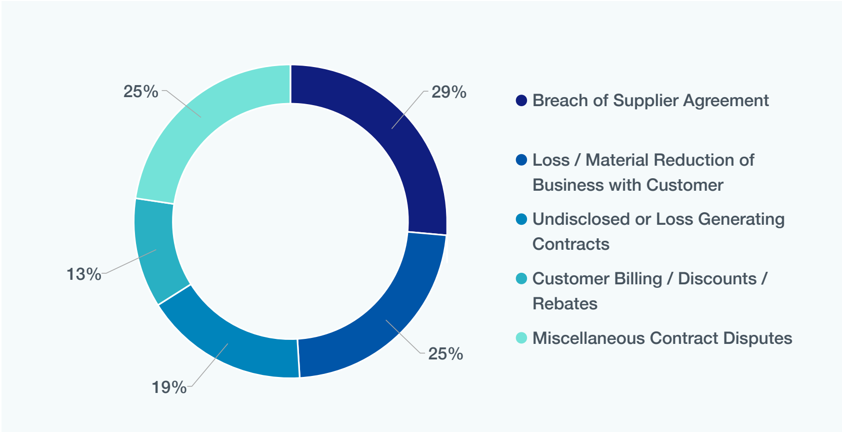


Figure 27: Aon Data: Issues Underlying Manufacturing Material Contracts Breaches

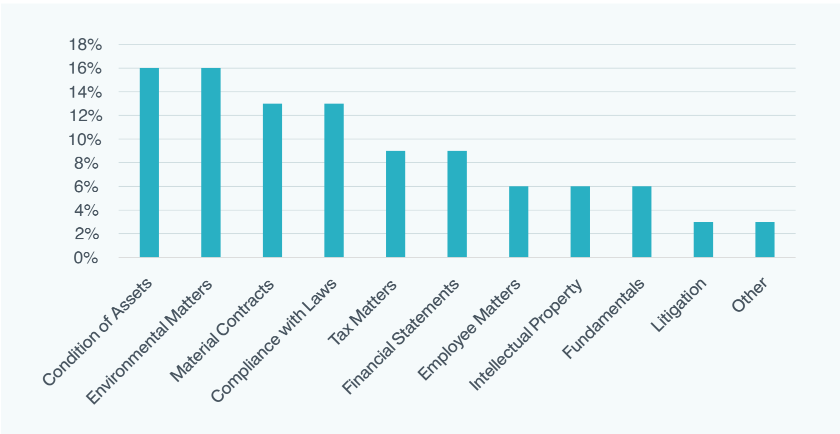


Since inventory-related issues are not always subject to a multiple of damages, financial statements breaches aren't as severe in this industry. However, when a breach impacts the underlying cost to manufacture products or revenue for existing contracts, our clients have been successful in claiming a multiple of damages for the decreased profitability of the business.

While tax has the highest claim frequency in the manufacturing sector, there has been a relatively low severity to date. Most tax claims have been the result of unpaid tariffs and U.S. Customs and Border Protection violations.

Of the claims that are currently active, condition of assets, environmental matters, and material contracts are the leading breach types (see Figure 28). While we have yet to see paid loss on environmental breaches in this industry, there are significant active claims arising from excess emissions at manufacturing facilities. Additionally, there are significant active condition of assets breaches arising from machinery operating past capacity prior to closing, as well as general shortfalls of industry operating standards for acquired facilities.

Figure 28: Aon Data: Percent of Active Manufacturing Claims by Primary Breach Type



Notable Recent Payment

Breach type:
Product Liability & Financial Statements

Time to Resolution
22 months

Payment:
Policy limit (8 figures)

Transportation & Logistics
Accounting Issues and Key Customer Contracts Drive Losses

As of Q4 2024, Aon clients have recovered $183.5 million in payments on transportation and logistics claims. Including the retention, $214.5 million in loss has been recognized. Aon clients have 16 active claims in the sector.

> **Key Takeaway:** While not all issues are industry specific, over three-quarters of all loss arises from financial statements and material contracts breaches.

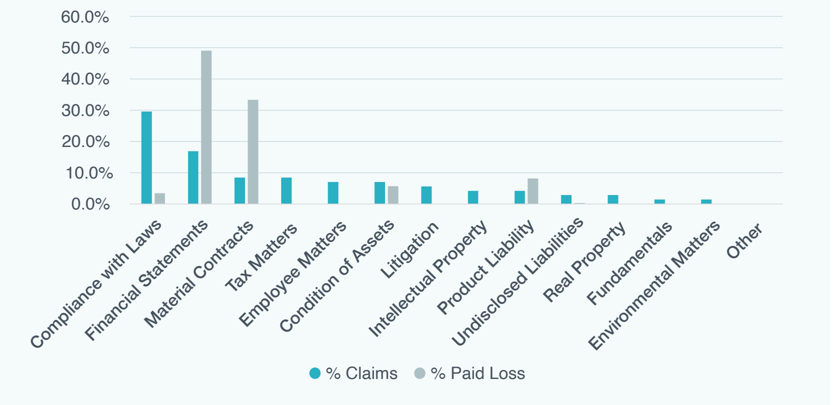
As Figure 29 shows, **nearly 30% of all claims** within the transportation and logistics industry arise from breaches of the compliance with laws representation. However, much like the retail and consumer section covered earlier, these claims typically do not result in severe loss; this industry has an outsize number of hourly employees and as such, the most common type of compliance with laws claim is related to a third-party wage and hour complaint. Ultimately, the exposure here is driven by the number of employees, the time frame of the alleged wrongful conduct, and the hourly wage being paid. Loss typically exceeds the retention when a few of these variables are significant.

Instead, over 75% of all loss in this sector comes from just two representations: (1) financial statements and (2) material contracts. Interestingly, the claims that arise from these two breach types are very different in how industry specific they are.

The financial statements breaches that make up most of the claims within this sector are not specific to transportation and logistics. They primarily comprise the typical accounting mistakes and errors that we see across a wide variety of industries. These include improper booking of accounts payable/receivables, improperly noting recurring expenses, and customer overbilling issues.

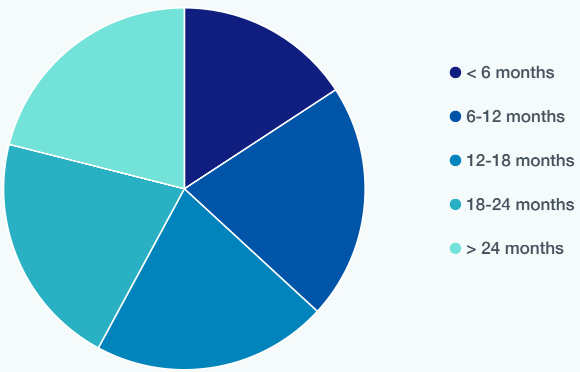
Conversely, the claims that allege breaches of the material contracts representation are much more closely tied with the particulars of the sector. The main drivers of loss include contract performance issues with major online retailers, contract and rebate issues around nationwide fuel provider contracts, and third-party contracts around parts/services to keep a fleet operational. These contracts either provide revenue or help service a fleet so that it can fulfill its revenue-producing obligations and have led to significant loss when they are impaired prior to closing.

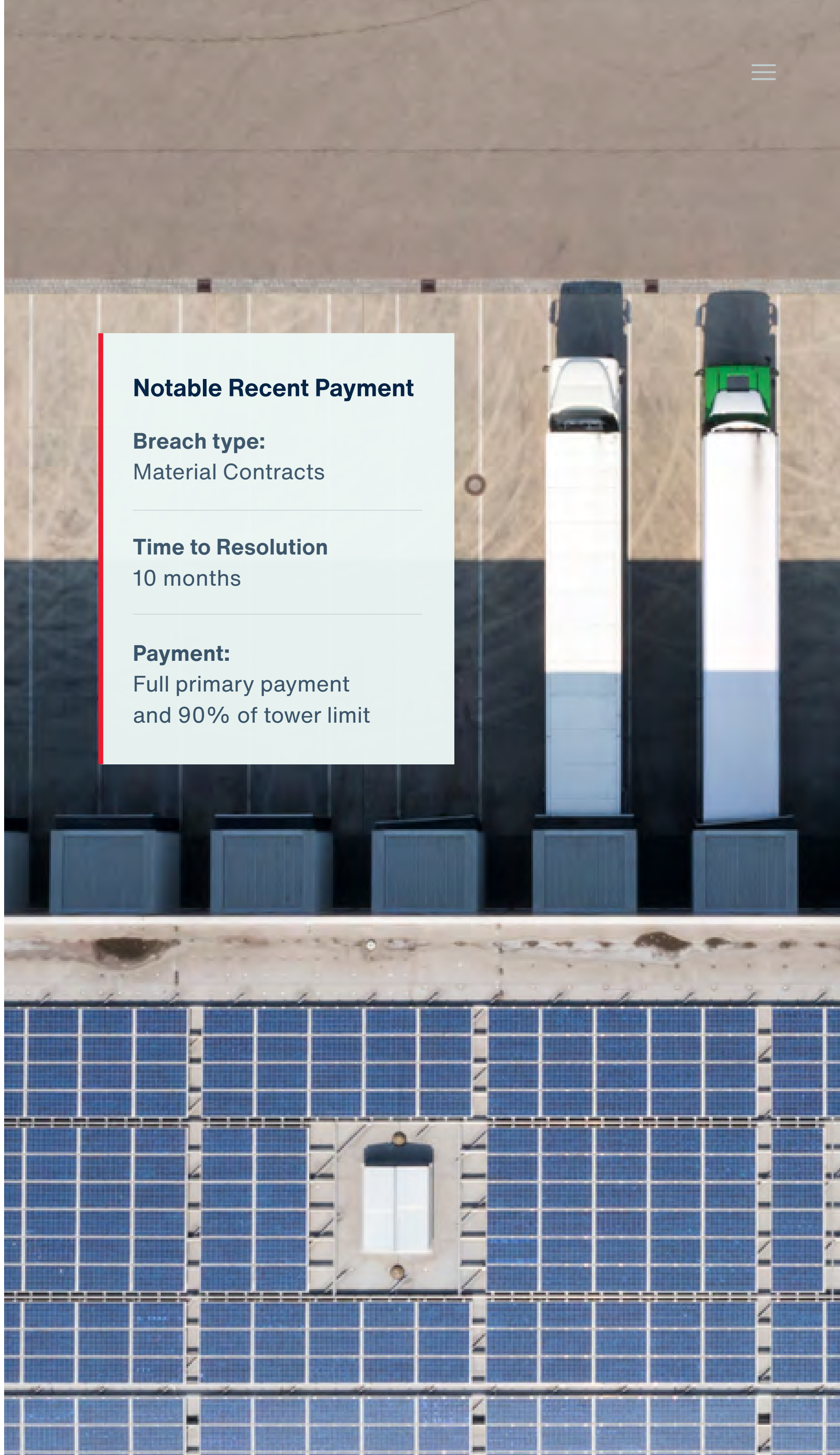
Figure 29: Aon Data: Transportation Frequency and Percentage of Total Loss Paid by Type of Breach



Notably, the transportation and logistics industry is the sector with the highest percentage of claims filed more than 12 months post-close. In fact, as Figure 30 shows, 63% of all claims are filed after 12 months. This is led by compliance with laws claims, which make up 33% of these claims, but financial statements and material contracts claims combine to make up nearly the same amount. Obviously, absent a R&W policy in place there would be no coverage for these claims, as the typical survival period for a seller escrow is 12–18 months.

Figure 30: Aon Data: Time from Closing to Notice (Transportation Policies Where Coverage for the General Representations Has Expired)





Notable Recent Payment

Breach type:
Material Contracts

Time to Resolution
10 months

Payment:
Full primary payment and 90% of tower limit

Tax Insurance

Unlike the tax coverage for unknown tax risks that is provided under R&W insurance policies, this section discusses Aon's claim experience on tax insurance policies for specific known or identified tax exposures of risk related to a known tax exposure. Due to the extended nature of tax contests, as well as the large volume of programs placed in the last seven years, Aon is beginning to observe increased claims activity on tax insurance placements, primarily on those incepted prior to 2022. **On average, the time from policy inception to a notice of a claim or pre-claim notice of a general audit is 28 months, while most policies include a seven- to ten-year period in which to make a claim. However, due to expanding insurer risk appetite and increased number of policies placed after commencement of an audit, this average has declined.** The frequency of notifications on tax insurance policies is shown in Figures 31 and 32.

While tax insurance is a mature global product, this section will focus on North American tax data. In the Insurer Survey, **responding insurers reported that 42% of the notices received with respect to tax insurance policies placed between 2016 and Q3 2024 related to a pre-claim notice of a general audit, whereas 49% have involved review of a covered tax position amounting to a formal claim (see Figure 33). Additionally, responding insurers stated that overall notification frequency on tax insurance policies placed between 2015 and Q3 2024 is 13%** (see Figure 32), with 67% reporting that the number of claims filed since 2021 is about the same and 25% reporting that notices have increased compared with previous years (2016–2020).

Figure 31: Aon Data: Claim Frequency 2015–2024 on North American Tax Policies

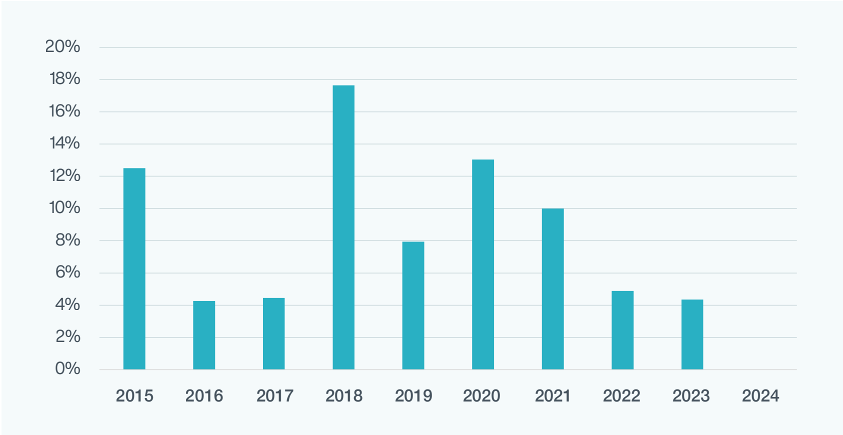
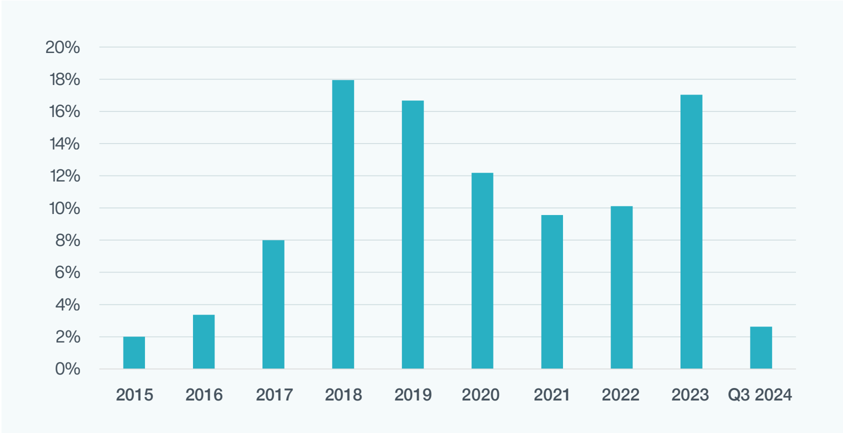


Figure 32: Insurer Survey Results: Tax Claim Frequency 2015–Q3 2024



Since last year's study, we have seen both claims where a settlement was reached and claims where the tax authority successfully asserted that a tax was due, resulting in payments to Aon clients.

For tax insurance policies placed between 2016 and 2024, responding insurers reported that on average, 69% of all claim payments above the retention have been below $1 million; 25% of claim payments have been between $1 million and $10 million; and 6% of claim payments have been greater than $10 million (see Figure 34). **Overall, from this experience we can conclude that our clients are being reimbursed for valid claims for both contest costs and assessed amounts, and successfully negotiating tax authority settlements with insurer contribution where appropriate.**

More than two-thirds of claims made on Aon tax insurance policies placed in North America remain active and are negotiating settlement or resolution. These placements are still working through the audit, appeals, or tax court litigation process and insurers are paying contest costs in connection with these active matters. Approximately 46% of Aon tax insurance claims on placements made from 2016 to 2024 relate to renewable energy tax credit transactions, which is slightly lower than the number of placements in this space compared with our overall book. While some of these claims have now resulted in a payment, the majority remain active and under appeal. It is our expectation that over time, as the tax contests progress, the percentage of claims resulting in a payment and total amounts paid will climb.

With another year of experience and some significant tax claims working toward resolution, we have seen insurers continue to be responsive and cooperative. Insurers have timely responded to policy timelines for review and consent during the audit and claim process. Their approach has been collaborative, as the insurers typically view the tax claim as a partnership in the defense of the covered tax position with the insureds and their counsel. **To date, every claim made under an Aon tax policy either is active, has been paid, was settled within the retention, or resulted in no tax owed to the tax authority.**

Figure 33: Insurer Survey Results: Current Status of Tax Insurance Notifications

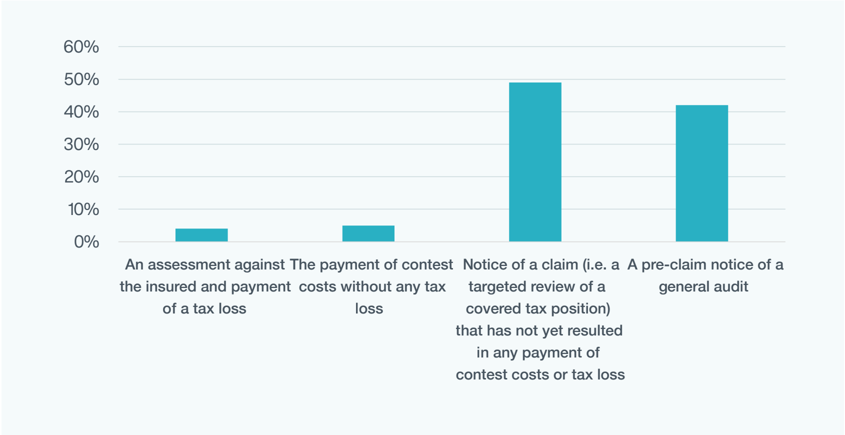
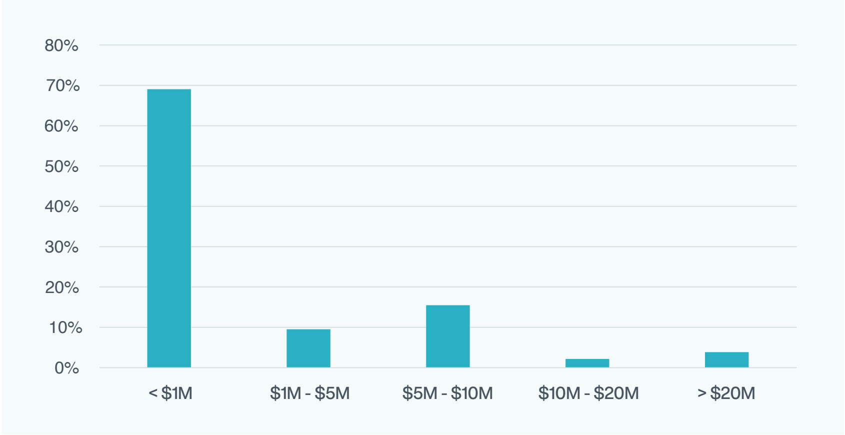


Figure 34: Insurer Survey Results: Tax Insurance Payment Sizes



About Aon

Aon plc (NYSE: AON) exists to shape decisions for the better — to protect and enrich the lives of people around the world. Through actionable analytic insight, globally integrated Risk Capital and Human Capital expertise, and locally relevant solutions, our colleagues provide clients in over 120 countries with the clarity and confidence to make better risk and people decisions that help protect and grow their businesses.

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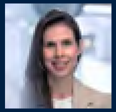

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