GuyCarpenter

SPECIAL PURPOSE ACQUISITION COMPANY DIRECTORS & OFFICERS LIABILITY MARKET

As the SPAC Market Cools, What Comes Next?

Highlights

- More than 550 special purpose acquisition companies (SPACs) have raised more than USD 182 billion since the start of 2020. With the explosion of equity issuance, gross proceeds in the first quarter of 2021 exceeded the total for all of 2020. But the market is now losing steam, with the number of SPAC initial public offerings (IPOs) falling dramatically since mid-March.
- 2021 began with the number of SPAC IPO issuances averaging over 3.5 per calendar day, dropping to a little over 0.5 per day in the period mid-March through mid-April.

Table 1

2021 SPAC IPO Pace of Issuance(s)	# of Days	SPAC IPO Complete (Searching)	Average Issuance Rate Per Calendar Day
Jan. 1 to Mar. 24	83	294	3.54
Mar. 25 to Apr. 12	19	12	0.63
TOTALS	**102**	**306**	

Source: S&P Capital IQ

Table 2

Year	Total Active SPAC IPOs @ 4/10/21	% De-SPAC Completed	Gross Proceeds (mms)	Total SPACs
2021	306	0.0%	$99,012	306
2020	222	10.5%	$83,334	248
2019	26	54.2%	$13,600	59
2018	2	93.5%	$10,751	46
2017	2	85.3%	$10,048	34
Total	**558**		**$216,748**	**693**

Source: S&P Capital IQ

- Insuring the directors, officers and sponsors of SPAC IPOs presents risks and opportunities for directors and officers (D&O) liability underwriters.
  - **Risks:** As the SPAC IPO boom winds down, the focus will turn to the next phase in the SPAC lifecycle – the "de-SPAC" process, with only 10.5 percent of 2020 SPAC IPOs having reached that stage. The D&O risks for insurers and reinsurers are evolving. For now, D&O risk skews towards the SPAC IPO run-off policy and the de-SPAC policy, with severity centered on the go-forward program.
  - **Opportunities:** Historically, only a select number of SPAC D&O insurers and reinsurers have been needed to meet industry demand. However, with the unprecedented volume of deals, there currently is a supply/demand mismatch.
- The U.S. Securities and Exchange Commission (SEC) is actively evaluating this rapidly growing market. Most pressing, the SEC is looking to establish new guidance on the accounting of warrants, a key component of the economics of a SPAC. Other areas of focus include: undisclosed conflicts of interest, overly optimistic projections, and the evaluation and selection of target companies.
- The top securities plaintiffs' firm,[1] Robbins Geller Rudman & Dowd LLP (Robbins Geller), announced the formation of a "SPAC Task Force" designed to protect blank check investors. It is hard to imagine how this initiative could be interpreted other than as a harbinger for future litigation.
- Guy Carpenter's knowledge and understanding of the burgeoning SPAC D&O segment, coupled with strong market insights, have enabled us to support our clients as they respond to market demand. We are doing this through:
  - Continuous review of the evolving risks
  - Identification of metrics which may be predictive for litigation
  - Managing aggregation
  - Addressing related ERM objectives.

Introduction

With rapid growth in the formation of special purpose acquisition companies (SPACs), unprecedented opportunities have emerged for D&O liability insurers and reinsurers. However, with the brisk growth, concerns have emerged about potential claims aggregation and the increased possibility of SPAC-related litigation, which have led others to take a more cautious approach. In mid-April, Robbins Geller announced the formation of a dedicated SPAC task force to "protect investors in blank check companies and seek redress for corporate malfeasance." This should be viewed as a '"shot across the bow" for all SPACs and SPAC directors and officers, SPAC sponsors, post de-SPAC transaction companies and for D&O insurers.

Underwriters considering entrance or expansion into the SPAC D&O market will benefit by having a robust picture of the underlying risk exposures and identifying market obstacles and opportunities for timely action.

Guy Carpenter has conducted a detailed analysis of the evaluation criteria and associated risk factors with SPACs over the course of their life cycle, from their initial public offering (IPO), to commencing due diligence, negotiating a merger agreement, closing a reverse merger and operating as a new public company.

As warrants are a key economic feature with SPACs, one area Guy Carpenter is exploring are variables that influence an option's price. Implied volatility is an essential ingredient to the option-pricing equation, and the failure of an option trade can be significantly heightened by being on the wrong side of implied volatility changes. Consequently, we are evaluating companies to see if there is a correlation between elevated implied volatility percentages and securities litigation.

1. Ranked by total cash amount of North American securities class action settlements occurring in 2020.

Table 3: **Insurer Evaluation Criteria for SPAC IPO Companies**

	Favorable SPACs	Less Favorable SPACs	Comments
Domicile	• US address	• Non-US address	• SPAC's domiciled in the United States are more favored vs those domiciled outside the United States.
Sponsor Background & Volume	• Successful serial SPAC sponsors • Steady cadence	• Newcomer • Simultaneous high volume	• Composition of the SPAC's board of directors and management team. • Each member of the group's experience in their given industry and the SPAC sector, track record of investments, and reputation will be analyzed.
Offering Amount	• Moderate	• Very high or very low	• The larger the fundraise, the higher the D&O policy premium and self-insured retention. • Historically, settlement amounts of securities class action suits are correlated with a company's market capitalization.
Compensation	• Market-standard	• Unusually pro-sponsor	• What percentage of the equity will the SPAC Sponsor receive for their nominal investment? (known as the "Promote")
Geographic Focus	• Familiar jurisdiction, e.g., US, Canada, UK & EU/EEA	• Less familiar jurisdiction, e.g., Asia, Africa or South America	• D&O insurance carriers favor writing policies in geographies where they understand the state's regulations, corporate securities laws and consumer economy environment; Various insurers have strict guidelines that prohibit them from covering areas of the world where they do not have these insights.
Target Class	• Aligned with management expertise • Not socially controversial • More specific target • Proven business model • Saturated market	• Not aligned with management expertise • Socially controversial • Less specific target • Unproven business model • Blue ocean	• Understanding correlation between the sponsor team's expertise and the targeted class of potential companies to acquire. • The more specific the information outlined in the S-1 registration statement regarding the target class of business and its location, the greater clarity insurance underwriters will feel they have.
Deal and Diligence	• Institutional support	• Small team	• Ensuring there are no potential conflicts of interests between the sponsors & the SPAC is important. • Analysis of the disclosures of related party transactions. • Independent third-party fairness opinion
Advisory Team	• Well-known investment bankers, lawyers & auditors	• Less well known investment bankers, lawyers and auditors	• A SPAC that can work with reputable firms who have experience in the sector comforts insurance underwriters because they believe these firms will have invested time and resources to perform their own due diligence.
Indemnification of D&Os	•Clear indemnity provision exists for directors & officers	•Unclear whether directors & officers will be indemnified	•Clarity regarding indemnification of SPAC directors and officers will be viewed more favorably by D&O underwriters
Federal Forum Provision	•Included in charter provision	•Not included	•An S-1 that explicitly references federal forum provisions in the SPAC's corporate charter documents will be deemed favorable compared to one that doesn't address the same.

Source: Marsh

Although SPACs have been a part of the public D&O market landscape since their introduction in 1993, there has been limited claim activity in their sphere, with only five SPAC securities litigation settlements totaling less than USD 50 million. Similarly, in the period from January 1, 2019 to April 12, 2021, there have been only 22 federal securities class action filings out of a total of 613 SPAC IPOs (a 3.58 percent litigation rate). According to NERA Economic Consulting,[2] the standard litigation rate for SPACs is lower than the standard securities litigation rate of 5.7 percent in 2020 — the lowest ratio in the last five years. Despite the challenges to our analysis presented by the scarcity of historical litigation data, we gained insights into the opportunities and pitfalls in this market that help us inform and elevate the guidance and advice we offer our clients contemplating entrance.

Rise of the SPAC

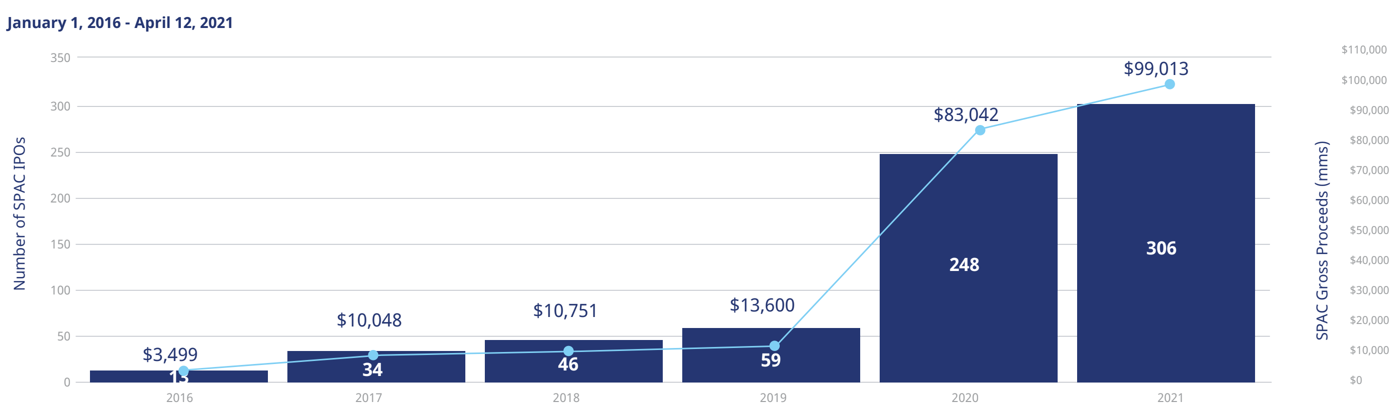
While the first-ever SPACs were formed in the early 1990s, the New York Stock Exchange (NYSE) between Exchange and did not list SPACs until May 2017, after the U.S. Securities and Exchange Commission (SEC) enacted new laws and regulations to make SPACs more shareholder friendly.

In the first 25 plus years of SPAC history, sponsors raised a relatively small amount of capital. For example, in 2019, the SPAC market's most-lucrative year at the time, 59 SPACs raised a total of USD 13.6 billion — an average of USD 231 million per SPAC.

As Figure 1 shows, the COVID-19 environment has helped push SPAC investments into the stratosphere. In March 2020, investors faced the fear that the volatility caused by a once-in-a-century global pandemic would impede the IPO market for an unknown — and intolerable — period of time. Accordingly, problem-solving venture capitalists and private company owners and investors started to view a SPAC as an alternative way to raise money without being subjected to the whims of the suddenly volatile market. Their strategy proved successful. The surge in SPAC IPO capital has provided SPAC sponsors, their acquired private companies, and other institutional and retail investors in both, ample opportunities to benefit from a SPAC's "fast track" to going public.

The upward trajectory of SPAC growth has been nothing short of explosive. While SPACs were an initial response to the problems posed by COVID-19, their continued use is a reflection of the length and breadth of the pandemic's impact and a recognition of the benefits that SPACs provide, regardless of market ups and downs.

Figure 1: SPAC Statistics: Summary and Status by Year as of 4/12/2021



Source: 2021 SPACInsider

2. NERA Economic Consulting: Recent Trends in Securities Class Action Litigation; 2020 Full Year Review.

Opportunities

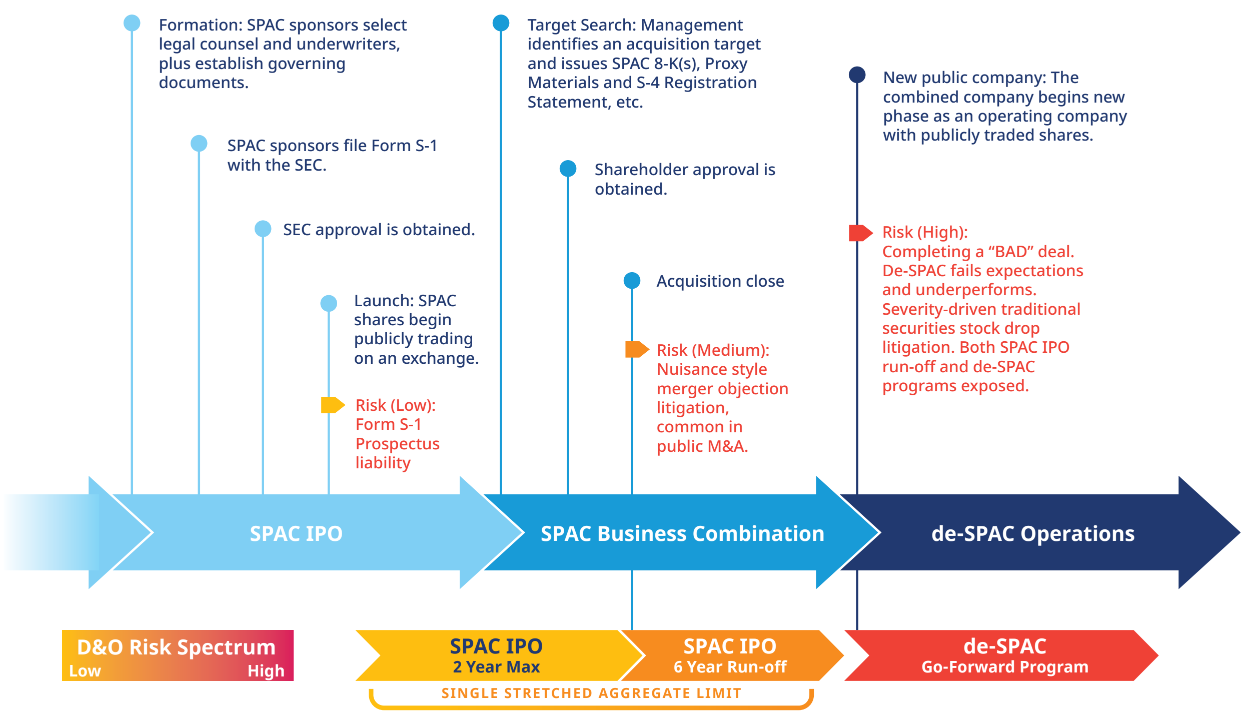
Insuring the directors, officers and sponsors of SPAC IPOs represents a unique opportunity for D&O liability underwriters. Historically, only a select number of D&O insurers and reinsurers have insured SPACs. However, with the growing volume of deals, there currently is a supply/demand mismatch. Thus, despite the favorable claims experience, the market has hardened considerably over the last six months.

As mentioned, while the claim experience around SPAC liability has been quite favorable, with more activity, there is an increased possibility of litigation. For example, while historically only of nuisance value, there is a high likelihood of standard merger objection cases. Generally, this type of litigation can be addressed via higher self-insured retentions (SIRs). However, across many SPAC IPOs, there is an absence of clear indemnity provisions for insured persons. Consequently, there are questions in the market on the value of higher SIRs, where insurers and reinsurers could be exposed from a ground up basis. As the SPAC moves to the de-SPAC phase, the litigation risk does increase. The increased exposures center on breaches of fiduciary duty and violations of securities laws against the directors, officers and sponsors, leading to a decline in value of the post-merger company.

To date, these have been mostly lower value claims alleging misleading disclosures in proxy statements soliciting shareholder approval of the de-SPAC merger transactions. Importantly, the shareholder-friendly SPAC structure provides a strong defense strategy: Shareholders who do not like the proposed acquisition can simply redeem the shares, receive their initial investment back, plus interest, and walk away. In any event, these merger objection actions frequently settle or are voluntarily dismissed when the company issues additional disclosures and agrees to pay plaintiff's fees.

SPACs - The "Blank-Check" Boom

Figure 2: D&O Risks vis-à-vis the Phases of a SPAC's Life Cycle



The D&O Risks for insurers and reinsurers are evolving. For now, D&O risk skews towards the SPAC IPO run-off policy and the de-SPAC policy, with severity centered on the go forward program.

- **Shareholder-Friendly Guardrails for Retail Investors:** Within the SPAC IPO phase, there are D&O liability concerns around retail investors potentially suffering a distinct disadvantage when paired with more sophisticated institutional investors. However, unlike traditional venture capital, SPAC IPOs have numerous structural guardrails to protect investors, not the least of which is that the investor can vote against the acquisition and have their investment plus interest returned to them while keeping their stock warrants (that can be issued if the stock price increases).
- **Hard Market Conditions:** The sheer volume of SPACs and concerns about risk aggregation have limited the number of underwriters interested in any one deal. For now, motivated D&O insurers and reinsurers can write SPAC and de-SPAC risks with reduced competitive pressure. The price of D&O insurance for SPAC IPOs nearly doubled in the fourth quarter of 2020 as questions arose around high profile circumstances involving SPAC acquisitions, especially around the electric vehicle maker Nikola. Rising rates, low limits, high retentions and restrictive terms are characteristics of the current market. Underwriters also have increasing levels of control in structuring policies. Today the market has shifted from a tightening seller's market to a full on hard market, where there is an increasing number of transactions where desired program limits are not available at any price.
- **Favorable Loss Experience:** SPAC- and de-SPAC-related suits and settlements are fewer in number than the rest of the traditional public D&O market. In the United States, shareholders have filed only 22 federal securities class actions (SCAs) among 613 SPAC IPOs in the 27 months from January 1, 2019 to April 12, 2021 — a frequency rate of just 3.6 percent. Further, in more than 15 years, only five federal SCA suits have been settled, resulting in an aggregated total loss of less than USD 50 million.

Risks and Challenges in Insuring SPACs and de-SPACs

There are other risks and areas of concern for insurers to consider when underwriting a SPAC transaction:

- **Conflict-of-interest risks:** Depending on the SPAC/de-SPAC, there may be misaligned incentives between SPAC public shareholders and SPAC sponsors and management teams. Additionally, conflicts of interest have specifically been raised by the SEC as a source of concern.
- **SPAC aggregation concerns:** Insurers and reinsurers are concerned with being "overweight" in the space. The dual nature of SPAC and de-SPAC entities could result in claims aggregation from the same event if insurers underwrite both a SPAC IPO run-off policy, private company D&O policy and the go-forward de-SPAC coverage. Similarly, reinsurers may have portfolio aggregation concerns.
- **Policy structures:** As only a shell company with the proceeds of the IPO held in escrow and not accessible, SPAC IPOs have limited resources to pay for the rising costs of D&O insurance. As a remedy to address this, insurance brokers have attempted to shift the cost of the upfront premium to the run-off premium for which the de-SPAC pays the premium. For instance, if the primary carrier is looking for USD 500,000 for a primary USD 5 million limit with a 2.5X to 3.0X run-off factor (USD 1,250,000 to USD 1,500,000), they could consider reducing their USD 500,000 up front premium by a factor of .70X to USD 350,000, then increasing their run off factor to 4.0X to 5.0X (USD 1,400,000 to USD 1,750,000), thereby receiving an equivalent overall premium.

Insurers and reinsurers are receptive to the concept as the two-year policy and the six-year run-off are part of the same aggregate limit of liability. However, de-SPAC D&O placements are often handled by an insurance broker that is different from the one that placed the SPAC IPO. In a vast majority of cases, D&O run-off insurance is part of a comprehensive D&O insurance policy that is originally purchased when the SPAC IPO goes public and shares the same aggregate limit of liability. However, run-off can also be purchased as a standalone policy from a third party D&O insurer. In these cases, it is common for the new insurer to require the insured prior to binding, submission of a broad-based notice of circumstances to the existing insurance program. While there are no guarantees that the incumbent D&O program will accept the notice of circumstances, it reduces the exposure to risk for the new insurers. Consequently, the new insurers are able to price the run-off at lower premium than the incumbent program.

GUY CARPENTER IS EXPLORING NON-TRADITIONAL D&O METRICS TO GAUGE A SPAC'S SUSCEPTIBILITY TO SECURITIES LITIGATION

If there is a change in insurance broker there are concerns that the new broker for the de-SPAC could also market the run-off of the SPAC IPO. The resulting impact would place additional pressure on upfront costs as insurers and reinsurers are pricing SPAC IPOs with the foundational premise of collecting both the upfront and run-off premium for the same aggregate limit of liability. For example, since the start of the fourth quarter of 2020, average Rates on Line (ROLs) for the entire SPAC IPO D&O program are approximately 10 percent. However, when combined with the run-off premium, the average ROL is well over 30 percent. Without a high degree of confidence in receiving both the initial and the run-off premium, generating capacity for SPAC IPOs will become increasingly more difficult.

Looking forward, D&O underwriters will have heightened focus on private companies and "de-SPAC" opportunities. With virtually any private company as a potential target company, writers of private company D&O should consider proactive steps to minimize downside risk in the event one of their insureds is targeted. For example, as private company D&O policies renew, consideration should be given to increasing M&A retentions and increasing prenegotiated extended reporting period premiums charged.

As of April 12, there were a total of 435 SPAC IPO companies that were searching for a merger partner and another 123 SPAC IPOs that have announced a merger but have yet to close. That's a whopping 558 active "blank-check" companies (See Table 2). SPACs have moral hazard risk, whereby they have an incentive to sneak bad deals by naïve shareholders.

This risk is amplified when there is an excess supply of SPACs and a finite number of quality acquisition targets. Consequently, D&O insurers should give careful consideration to late stage deals, as the deadline for liquidation is just around the corner. It is reasonable to assume that with the clock ticking, the potential for a conflict of interest is greater.

Lack of Historical Operating Data

Many D&O models, including Guy Carpenter's LEAD® (Loss & Exposure Analysis for D&O) D&O model, quantify the exposure of traditional companies to security class actions — over time, certain attributes like size, volatility and growth translate to substantially greater exposure. By contrast, SPAC IPOs have smaller market capitalizations with less volatility, making them less attractive targets for the plaintiff's bar. Also, as a shell company with no operations and/or revenue growth expectations, there are fewer exposure opportunities for the plaintiff's bar to hang their hat on to bolster their complaints.

To compensate for the lack of operating data to analyze, Guy Carpenter is exploring non-traditional D&O metrics to gauge a SPAC's susceptibility to securities litigation. For example, as warrants are a key economic feature with SPACs, one area Guy Carpenter is exploring are the variables that influence an options price. Implied volatility is an essential ingredient to the options-pricing equation, and the failure of an option trade can be significantly heightened by being on the wrong side of implied volatility changes. Consequently, we are evaluating companies to see if there is a correlation between elevated implied volatility percentages and securities litigation.

One troubling trend that is emerging is the growing interest of short sellers with SPACs. However, it is important to note that they are primarily targeting the de-SPAC company and not the SPAC IPO. Post-merger companies are more attractive to the shorts because they tend to have much larger market capitalizations with more availability for borrowing of shares, and early SPAC investors are eager to sell shares to lock-in profits. Additionally, shorting SPAC IPOs have less upside for bearish investors, because the proceeds of the SPAC IPO are held in trust and invested in treasuries, providing a floor to the stock.

THERE HAVE BEEN ONLY FIVE FEDERAL SPAC-RELATED SECURITIES CLASS ACTION (SCA) CLAIM SETTLEMENTS IN THE PAST 10 YEARS

The SCAs occurred after a business combination and typically allege poor due diligence (e.g. it is discovered after the business combination that the target company's financials were not accurate or their business prospects were misleading)

Filing Name	Filing Date	Settlement Date	Settlement Total
Cambridge Capital Acquisition Corp. (Business Combo w/Ability)	5/25/16	9/13/19	$3,000,000
Heckmann Corp. (Business Combination w/China Water)	5/6/10	5/13/15	$27,000,000
China MediaExpress (Business Combo w/TM Entertainment & Media)	2/4/11	5/7/15	$12,000,000
Endeavor Acquisition Corp. (Business Combo w/American Apparel)	8/25/10	7/29/14	$4,800,000
Ideation Acquisition Corp. (Business Combo w/SearchMedia): $2,750,000 (filed 9/13/10 & settled 11/30/11)	9/13/10	11/30/11	$2,750,000

- To date, the claims experience has been favorable. However, with the increased activity in SPACs comes the increased possibility of SPAC-related litigation.
- Additionally, despite the explosion in popularity of SPAC IPOs only a small percentage have completed the de-SPAC process, e.g. 8.9 percent (22 of the 248) in 2020. Typically D&O litigation is not filed until after the business combination.
- Interrelated Claims: Of the federal litigations filed to date, each case differs in terms of whether the SPAC and/or one of its Insured Persons is named alongside the de-SPAC, and when the case is Securities Act of 1933 or Securities Exchange Act of 1934. Consequently, in some cases, multiple D&O policies can be impacted.

Filing Name	Filing Date	Exchange	Ticker	Sector
Canoo, Inc.	4/2/2021	NASDAQ	GOEV	Consumer Cyclical (EV)
Lordstown Motors	3/18/2021	NASDAQ	RIDE	Consumer Cyclical (EV)
XL Fleet Corp.	3/8/2021	NYSE	XL	Consumer Cyclical (EV)
Velodyne Lidar, Inc.	3/2/2021	NASDAQ	VLDR	Technology (EV)
MultiPlan Corporation	2/24/2021	NYSE	MPLN	Financial – Insurance
Immunovant, Inc.	2/19/2021	NASDAQ	IMVT	Health Services
GigCapital3, Inc.	2/8/2021	NASDAQ	GIK	Financial
Clover Health Investments	2/5/2021	NASDAQ	CLOV	Health Services
QuantumScape Corporation	1/5/2021	NYSE	QS	Consumer Cyclical (EV)
Triterras, Inc	12/22/2020	NASDAQ	TRIT	Fintech
Sunworks, Inc.	10/22/2020	NASDAQ	SUNW	Energy
Nikola Corporation	9/15/2020	NASDAQ	NKLA	Consumer Cyclical (EV)
Churchill Capital Corp III	8/11/2020	NYSE	CCXX	Financial
Akazoo S.A.	4/24/2020	NASDAQ	SONG	Services
HF Foods Group Inc.	3/29/2020	NASDAQ	HFFG	Consumer Non Cyclical
Exela Technologies Inc.	3/23/2020	NASDAQ	XELA	Technology

Note: Total filings include individual actions as well as class actions.

Filing Name	Filing Date	Exchange	Ticker	Sector
Boxwood Merger Corp.	11/22/2019	NASDAQ	BWMCU	Financial
Waitr Holdings Inc	9/26/2019	NASDAQ	WTRH	Services
Chardan Healthcare Acquisition	9/25/2019	NYSE	CHAC	Conglomerates
Greenland Acquisition Corporation	9/19/2019	NASDAQ	GLACU	Conglomerates
Black Ridge Acquisition Corp.	6/17/2019	NASDAQ	BRACU	Conglomerates
Alta Mesa Resources, Inc.	1/30/2019	NASDAQ	AMR	Conglomerates

The frequency of SPAC IPO SCAs from January 1, 2019 to April 12, 2021 is 3.6 percent (22 Claims after 613 SPAC IPOs).

Source: Stanford Law School (Stanford Securities Litigation Analytics) – April 12, 2021

Outlook for 2021

There have already been 302 SPAC IPOs in the first three plus months of 2021, with many more poised to go public in the second quarter and more in preparation and/or poised to launch later in the year. There are also currently more than 400 SPACS with over USD 130 billion (and that number is growing) in their investment periods, actively seeking merger partners. From an insurance perspective, here are some noteworthy developments:

- **Attractive Economics:** Despite the shift in focus from SPAC IPO to de-SPAC, economics for these D&O policies remain attractive. Market pressure is already forcing sponsors to structure SPACs in new ways that make them more equitable for all stakeholders and focused on long-term performance. Sponsors are reducing dilution by lowering the size of the promote (SPAC sponsors usually own a 20 percent stake in the SPAC through founder shares or “the promote,” as well as warrants to purchase more shares).
- **Going Global:** To date, SPACs have been a U.S.-centric investment phenomenon. However, with an increasing number of SPACs seeking to acquire private companies, the number of attractive initial business combinations will become scarcer in the United States. As such, it is likely that SPACs with significant war chests will become part of the European and Asian mergers and acquisition landscape. As a global reinsurance broker with an extensive network, Guy Carpenter is well positioned to support clients underwriting transactions outside the United States.
- **Monitor regulatory investigation and enforcement** in the SPAC space. Driven by the SEC’s new guidelines around the accounting of warrants, as well as focus on unrealistic expectations given to investors at critical points in the SPAC life cycle.
- **Expect increased litigation** as indicated by plaintiffs’ firms like Robbins Geller who are putting a spotlight on this area of the D&O market.
- **Future SPAC-related litigation** will likely not be limited to D&O liability insurance. Other financial lines insurance coverages could also be impacted. For example, other service providers like accountants who served as auditors, investment banks involved in the deal and/or law firms providing business transaction advice, will have exposure to liabilities as well.

Guy Carpenter Knows SPACs

Guy Carpenter’s knowledge and understanding of the burgeoning SPAC D&O segment, coupled with strong market insights, has enabled us to support our clients as they respond to market demand.

Currently, Guy Carpenter’s Financial Lines Center of Excellence and Analytics teams are collaborating with NERA, another business of Marsh McLennan, to evaluate the correlation of options volatility and securities litigation.

Further, we work with reinsurers to help them gain a greater understanding of these companies that present an increasingly attractive risk/reward proposition. Through this education process, we believe that a sustainable SPAC D&O market can be built with support from a broad number of both carriers and reinsurers.

Our Financial Lines Center of Excellence experts deliver deep market knowledge, technical insights and transactional capabilities to address the complex and unique risk management challenges related to SPACs.

To learn more about the risks and opportunities in underwriting and reinsuring D&O risks for special purpose acquisition companies and other entities, please contact:

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Appendix

D&O Insurance SPAC IPO Benchmarking (10/1/20 to 2/1/21)

Marsh has benchmarked D&O programs for SPAC IPOs from the transformational period in the market forward. Given the results, the risk/reward calculation for D&O carriers in many transactions can be quite compelling.

SPAC IPO Benchmarking

Quartile	Primary Limits
Minimum	$2M
1st Quartile	$2.5M
Median	$5M
3rd Quartile	$5M
Maximum	$5M

Quartile	Total Limits
Minimum	$2.5M
1st Quartile	$10M
Median	$20M
3rd Quartile	$30M
Maximum	$50M

Quartile	Retention
Minimum	$0 (Side-A-Only)
1st Quartile	$2.5M
Median	$5M
3rd Quartile	$5M
Maximum	$10M

Quartile	Primary Limits (24 Month Policy)
Minimum	$70k
1st Quartile	$80k
Median	$90k
3rd Quartile	$130k
Maximum	$190k

Quartile	Runoff Factor
Minimum	150% of annual
1st Quartile	200% of 2-year
Median	250% of 2-year
3rd Quartile	300% of 2-year
Maximum	500% of 2-year

Source: Marsh

About Guy Carpenter

Guy Carpenter & Company, LLC is a leading global risk and reinsurance specialist with more than 3,200 professionals in over 60 offices around the world. Guy Carpenter delivers a powerful combination of broking expertise, trusted strategic advisory services and industry-leading analytics to help clients adapt to emerging opportunities and achieve profitable growth. Guy Carpenter is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. The company's 76,000 colleagues advise clients in 130 countries. With annual revenue over $17 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses including Marsh, Mercer, and Oliver Wyman. For more information, visit www.guycarp.com and follow Guy Carpenter on LinkedIn and Twitter @GuyCarpenter.