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# Michael Marcon, Equity Risk Partners founder and CEO

By David Dankwa

*San Francisco-based Equity Risk Partners, founded in 2001, is the only insurance broker focused exclusively on servicing private equity firms and their portfolio companies. This year alone, its team of insurance, private equity and investment banking professionals have created insurance portfolios for PE firms like Founders Equity Inc. and Swander Pace Capital and worked on transactions involving Charlesbank Capital Partners LLC, Hale Capital Partners LP, Aquiline Capital Partners LLC and Francisco Partners, among others.*

*In an exclusive interview with SNL Financial, Founder and CEO Michael Marcon, one of the architects of Aon Corp.'s business in the private equity space, said clients are increasingly seeking insurance risk management and effective employee benefit programs due to increased sensitivities in the economy. The private equity firms also rely on the insurance broker's expertise when performing due diligence on potential acquisition targets, Marcon said.*

*The following is an edited transcript of the interview with Marcon.*

**SNL Financial: Has the fact that there are fewer PE transactions these days had a negative impact on your business?**

**Marcon:** It has been mixed. The economic environment has resulted in some risk-averse buyers who are more dependent on insurance services and other services to mitigate some of that risk. We have also seen the opposite, which is, since deals are fewer and further between, and since there seems to be more competition for those deals, there is sensitivity among certain buyers to overwhelm the target with lots of requirements. There is a certain subset of buyers who think they would have a competitive advantage by not pursuing some of those more stringent due diligent approaches, and as a way of separating themselves from the rest of the pack and possibly winning an auction or a sales process. On the whole, we have seen a shift towards less risk tolerance, more risk aversion from 2006 and 2007 levels, but it has not been as significant as one might have expected.

**Are you seeing an increase in the use of transaction-related insurance by PE firms?**

Clearly, we are seeing more firms asking the question about how they could mitigate some of the transaction-related exposure. In fact, we have significantly bulked up in that area in the last couple of years because there's been increased demand for those types of products. These products include insuring reps and warranties in a purchase and sale agreement or removing liabilities and transferring balance sheet liabilities from a portfolio company to an insurance company. There's a balance going on right now on transactional insurance and similar to the general trend of insurance as a whole, there hasn't been as great a swing as you would have expected, but it is clearly moving toward more insurance involvement rather than less.

**Equity investment in global PE deals is on the rise, so what are you doing to meet that demand?**

We recently created Equity Risk Partners Global as a direct consequence of the increased deal flow globally. There are U.S. firms that are looking for more effective deal opportunities overseas and then there are all of the overseas private equity firms that have started to mature and do deals in their own countries. As a result of that we have created the only independent consortium of insurance brokers focused exclusively on private equity firms. We have partner firms that follow our model in 22 countries. We have trained them to provide due diligence services, transactional insurance services and post-closing insurance services to their portfolio companies.

**Is there enough insurance capacity currently for PE firms?**

Right now we are in an increasing-to-neutral capacity environment, otherwise known as a soft market. Taking health care off the table, this is pretty much in every line of business. We've been in a soft market for six or seven years, and we probably have about 18 to 24 months to go. This is a direct result of the excess capacity in the marketplace. It is clearly a buyer's market.

**Have you been involved in any of the bank-related deals?**

We've worked on a couple of smaller ones, but the mega-bank type of transactions we stay away from. That is not our sweet spot. We are not looking to work on the Fortune 500 deals; we tend to focus on the upper-middle market and down deals. We were actively involved in a handful of community, regional bank deals where middle-market private equity firms were involved.

**What is the benefit of a portfolio company of a client purchasing insurance through your company?**

The benefit of doing it through us is that not only are we helping that portfolio company buy the most cost effective insurance at the broadest coverage but we're doing it with the best interest of the owner, the private equity firm, in mind. So we are simultaneously protecting the exposure of the portfolio company while protecting the best interest of the private equity firm.