

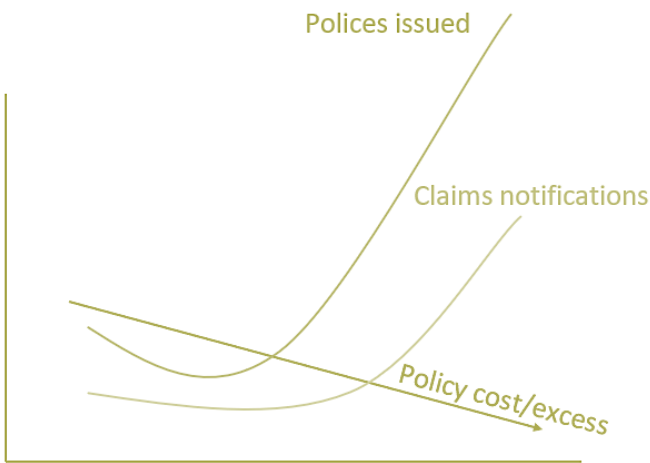
APRIL 2019

# M&A INSURANCE SPECIALISTS

The 'Economies' of M&A Insurance Claims



L I V A



The above illustrates a simple representation of what most M&A insurers have experienced over the preceding years.

The basic economics are as follows:

1. Increasing policies issued results in an increase in the number of claim notifications received.
2. Reducing excess levels increases exposure, which also leads to an increase in claim notifications.
3. In an increasingly competitive market, with reducing policy cost, insurers remain under pressure to ensure premium intake outweighs claim pay-outs.

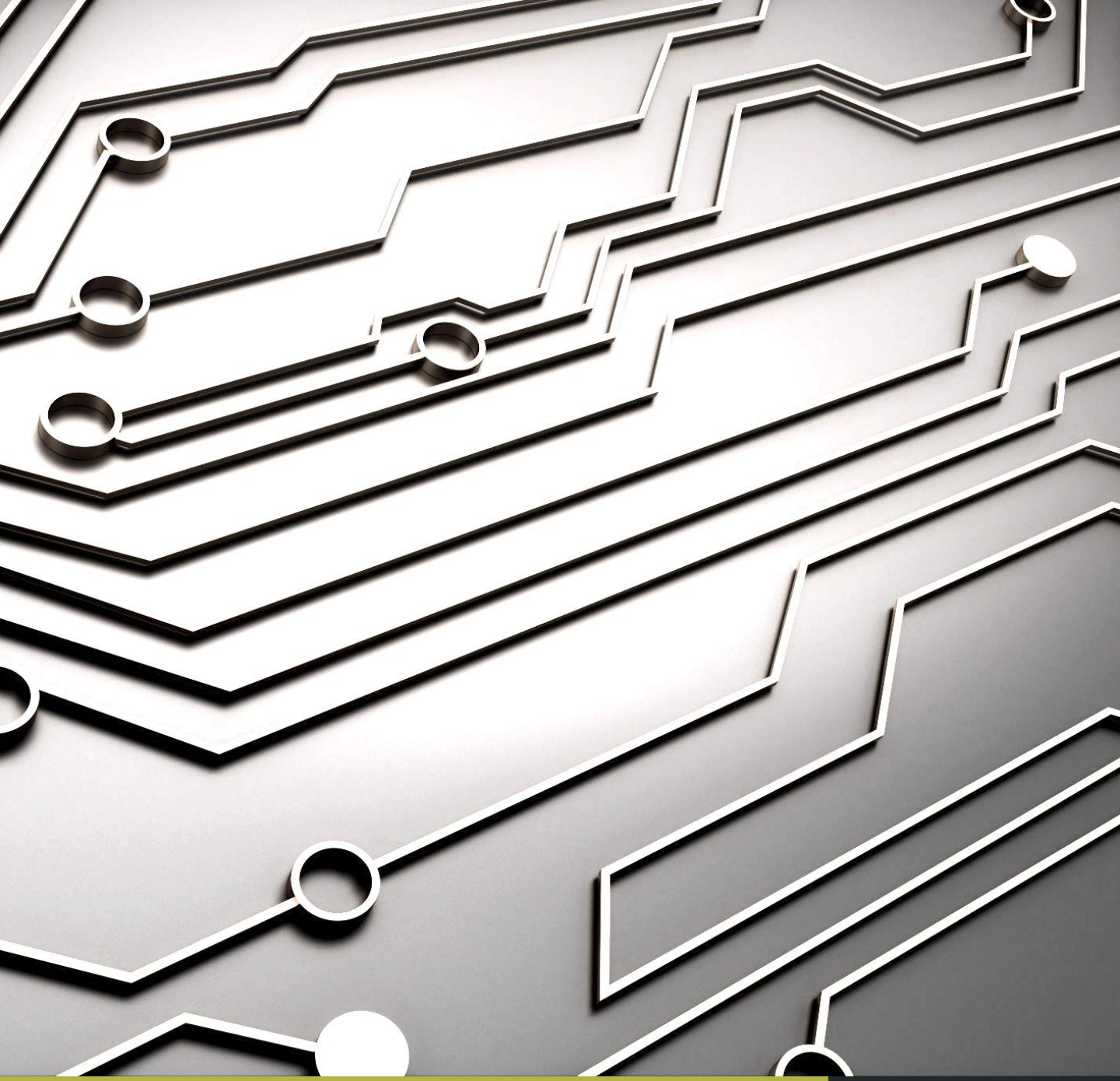
The use of Warranty & Indemnity / Reps & Warranty (W&I) insurance is often championed as a 'clean exit tool', 'deal facilitator' or 'bid differentiator' and has had notable success in transactions involving PE.

However, the long term success and usability of W&I insurance depends on how the product responds in a claims scenario, particularly where warranty claims can lead to high-quantum 'catastrophe' losses for investors.

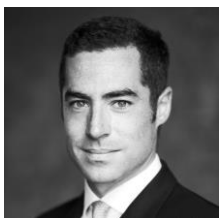
When choosing an insurer to cover M&A transaction risks, premium price is often considered to be the most significant factor in selection. Arguably, it should be one of the last factors. Coverage offered and the counter-party to the contract should play an equal, or perhaps more prominent, role. This point becomes more relevant with the large influx of new entrants and certain insurers' exits.

When considering an insurer for your transaction, it is key to understand their (1) claims history (including in respect of other lines of insurance), (2) financial security rating, and (3) claims' handling process and capabilities. This is particularly important when the term 'insurer' is used to capture both traditional insurers (an insurance company utilising their own capital) and Managing General Agents or MGAs (an agent acting on behalf of several underlying capacity providers). Both insurance companies and MGAs are prevalent in the M&A insurance market.


Repeat buyers of W&I insurance should also weigh up the pros and cons of spreading their premium spend across a large pool of insurers or whether to narrow this pool to a select panel.



**Contact LIVA if you require further information on Claims or the use of M&A insurance on your transaction.**



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